



Aalto University
School of Business

Mikkeli Campus

THE IMPACT OF LABOR MOBILITY ON ECONOMIC AND MONETARY UNION OF THE EU

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International Business

Bachelor's Thesis

Supervisor: Dr. Rita Buckley

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Degree: Bachelor of Science in Economics and Business Administration

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Objectives

The main objectives of this study were to acquire an understanding of the role labor mobility has on the Eurozone's economy as a whole. It aims to assess, whether the movement of labor could have a significant impact on the longevity of the EMU and prevention of a slow recovery from an asymmetric economic shock on the Eurozone. Additionally, his work examines, what has and can be done to lower the barriers to labor mobility in the Eurozone.

Summary

The free movement of labor is a cornerstone of the Eurozone as it offers significant benefits to the EU as a whole. The economy of the Eurozone has recently proven to be asymmetric, and thus vulnerable to economic shocks. Yet, labor mobility has shown to function as a stabilizer of asymmetric economic shocks. The impact that labor mobility has on the EMU is researched through 1) a literature review, 2) conducting a case study comparing the trends of labor mobility in two member states of the Eurozone, Germany and Spain, with differentiating national economies, and 3) interviewing four EU labor mobility experts from three different member states of the EU.

Conclusions

The impact of labor mobility on the Eurozone's economy and the EMU's longevity is remarkable, although slight due to its modest extent. Yet, labor mobility has been on an upward trend in the EU and thus, the future volume is expected to increase. Lowering the administrative and cultural barriers should be encouraged through further integration and economic convergence.

Key words: labor mobility, EMU, EU, eurozone, eurozone crisis, asymmetric economic shock, labor economics, macroeconomics

See: <http://web.lib.aalto.fi/en/helevoc/pdf/>

Language: English

Grade:

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1. INTRODUCTION

1.1 Background

The asymmetric economy of the Eurozone is something that prevents a relatively rapid recovery from future financial crises (Arpaia et al., 2016; Frieden and Walter, 2017). Research further states how the recent Eurosceptic development in multiple EU member states has, to an extent, discouraged people to fully utilize the freedom of movement (Krause et al., 2017; Ritzen and Kahanec, 2017). Yet, many other barriers for the freedom of labor movement within the EU exist, mostly associated with national culture.

There is thus a need for a more open movement of labor in the area in order to further develop the economic wellbeing of the member states of the EU. Zaiceva (2014) addresses how labor migration has the ability to absorb economic shocks, and in addition, Basso et al. (2019) emphasize that it has the ability to work as a method of correcting asymmetric economic shocks. In fact, a lack of extensive decision-making power concerning monetary policy, that would equally benefit all the member states, exists in the Eurozone. The significance of this research lies thus in determining the true impact intra-EU labor mobility has to the EMU and how the time of recovery from a future economic shock which would shake the state of the Eurozone could be reduced. The focus is hence on the importance of labor mobility as a factor for the longevity and effective operation of the EMU.

This thesis is structured as follows: first, this introductory section describes thoroughly the rationale and purpose of the research. Second, a review of recent literature is presented evaluating the overall impact of labor mobility on the EMU and Eurozone, suggesting a conceptual framework. Third, the methodology is presented explaining the research methods chosen for this study. Then, findings from a case study, comparing the labor mobility of Germany and Spain, two different member states of the EU belonging to the Eurozone, before, during, and after the Eurozone crisis are presented. Furthermore, four interviews from EU experts on trends of labor

mobility in the EU are presented and thoroughly analyzed. The findings made in this thesis are further discussed in the fifth section by connecting them to recent trends of labor mobility which have been found by academic research. The conclusions to this thesis are presented last by considering main findings, implications for International Business, and suggestions for further research.

1.2 Research Problem

The free movement of labor is not working to its full extent, even though it is considered as one of the cornerstones of the European Union. The Eurozone crisis has forced the European Central Bank (ECB) to make asymmetric decisions concerning monetary policy. This has caused the unbalanced recovery from the crisis for the whole Eurozone. This thesis shows the need for labor mobility to be further addressed in the future in order to avoid this slow of a recovery from an asymmetric economic shock.

The future of the Economic and Monetary Union of the EU (EMU) has been substantially discussed recently, as a few member states have had to suffer from high unemployment and a lack of financial security since the Eurozone crisis. The member states of the EU still facing the consequences can mostly be found from Southern Europe whereas the Northern and Central European member states (i.e. Germany and Finland) have completely recovered from the crisis and have long seen their economies grow. The EU has made the movement of labor possible and the issue of why the citizens have not taken the full advantage of this possibility is evaluated. The European Union has already created 'remedies' for the weak financial situation of some of the southern member states of the Eurozone but the reality is, that for example Greece, Spain, and Portugal, are likely to still take long to fully recover.

The Economic and Monetary Union of the EU is very difficult to observe as one economy because member states of the E(M)U, including the Eurozone, have enormous differences in their economies and abilities to recover from financial crises. This is why it has been extremely difficult for the ECB to adjust their interest rates in a

sense that such actions would benefit all members of the Eurozone equally. When looking at the longevity of the EU, it is important to take into account how 'free' the European labor markets are in reality, due to very different working cultures, and other barriers of the 'free' movement of labor.

1.2 Research Questions

This research aims to answer the following four research questions:

- How important is the free movement of labor to the longevity of the Economic and Monetary Union of the EU?
- Can the free movement of labor provide the Eurozone a means for a more rapid recovery from asymmetric economic shocks?
- What measures can the European Union take to lower the barriers for EU citizens to migration?
- Does labor mobility impact the effective operation of the Economic and Monetary Union of the EU?

1.3 Research Objectives

The research objectives of this thesis are the following:

- To assess whether an increase in the European Union (EU) labor mobility would prevent a slow recovery from asymmetric economic shocks.
- To explore and compare the actions that both the Central and the Southern member states of the Eurozone have taken in order to recover from the European debt crisis.
- To explore the impact labor mobility has on the effective operation of the Economic and Monetary Union of the EU.
- To examine whether an increase in EU labor mobility could unify the European economy and therefore build a more stable monetary policy for the member states of the Eurozone.
- To find if a freer movement of labor is vital to the longevity of the EMU.
- To explore whether lowering the barriers to integrate into another EU member state's labor market would increase the Euro-optimistic attitudes of persons.

- To find concrete ways to lower the barriers to migrate inside the European Union.

1.3 Abbreviations

EU	The European Union
EMU	Economic and Monetary Union of the EU
PIIGS	PIIGS: Portugal, Italy, Ireland, Greece, Spain (Elsner and Zimmermann, 2016) which suffered economically from the Eurozone crisis the most.
OCA	Optimum Currency Area, theory originally presented by Mundell (1961)
EU-15	The member states which joined the EU prior to 2004, i.e. Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, the UK (European Commission, 2020).
EU-8	Eight of the 10 member states which joined the EU in 2004, i.e. Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia (European Commission, 2020).
EU-2	Two member states that joined the EU in 2007, i.e. Romania and Bulgaria.
EU-12	All member states that joined the EU after 2004 (excluding Romania)

2. LITERATURE REVIEW

2.1 Introduction

In this work, the possibilities of free movement across the European Union of all workers and professionals possessing the citizenship of the EU is examined. The question on why labor mobility has not been working to its full extent is attempted to answer by assessing its impact on the Economic and Monetary Union of the EU. The poor mobility of labor has been considered as one of the factors behind a slow, unbalanced recovery from the Eurozone crisis among the member states. Lacking national monetary policy, the Eurozone, the member states of the E(M)U that have adopted the euro, cannot utilize devaluation as an adjustment method, and the movement of labor has been thus thought to be one of the most essential methods of adjustment (De Grauwe, 2013; Zaiceva, 2014; Kahanec et al., 2016; Krause et al., 2017; Kahanec and Guzi, 2017; Basso et al., 2019). Syed Zwick and Syed (2017) state that poor labor mobility during the Eurozone crisis has partially contributed to the growing heterogeneity of the Eurozone. Therefore, its improvement should be given a serious thought especially because of the recent growth of Euroscepticism which has discouraged the citizens to take advantage of the freedom of movement (Krause et al., 2017; Ritzen and Kahanec, 2017; Huart and Tchakpalla, 2019). In fact, the problem is that the Eurozone seems to lack extensive decision-making power concerning monetary policy, that would equally benefit all the member states. The significance of this literature review lies thus in determining the true impact intra-EU labor mobility has on the EMU and how the time of recovery from a future economic shock, which would shake the state of the Eurozone, could be reduced. The focus is hence be on the importance of labor mobility as a factor in the longevity and effective operation of the EMU.

The structure is as follows: section two examines the position of labor mobility as a cornerstone of the EMU in terms of the theory of optimum currency areas (Mundell, 1961), and whether the Eurozone should be considered an optimum currency area today. Section three discusses the role of labor mobility in stabilizing the economy and asymmetries of the Eurozone's economies, acknowledging the recent EU-wide trends in the movement of labor. Section four highlights the role of the movement of

labor during the Eurozone crisis, from which a number of the member states are still in recovery. Taking into account that labor was not mobile enough during the crisis (Jones et al., 2016), section five examines the barriers that kept the European labor force from moving. The different barriers are concentrated on, and methods to further incentivize European labor mobility are discussed. The barriers are roughly divided into cultural and administrative, observing the recent Eurosceptic attitudes and the impact of them on labor mobility as an increasing trend. The sixth section discusses the longevity of the EMU, as recent research represents many different views about it. It thus estimates the implications made on the EMU's future. A brief summary and conclusion are provided in section seven. Lastly, section eight provides a conceptual framework assessing the role of the free movement of labor in the EMU, analyzing the findings made in this literature review.

2.2. Labor Mobility as a Cornerstone of the EMU

The European Union is an economic union i.e. common market with a customs union offering its citizens the freedom of movement of goods, services, capital, and labor. In 1999, the Economic and Monetary Union of the EU was established, and eleven member states took a step forward in integration. Today, 19 of the 28 EU member states share a common monetary policy and currency, the euro (European Commission, 2019). This integration further increased the importance of the movement of labor to the EMU which gives the right to work and reside anywhere in the EU without a work permit (Krause et al., 2017). It is defined as one of the most significant channels with which country-specific economic shocks are absorbed in a currency area (EMU) (Basso et al., 2019). The movement of labor in currency areas is quite often discussed through the theory of optimum currency areas (OCA), which was first described by Mundell (1961). The ideal question behind the OCA theory has been whether a common monetary policy would be feasible for the member states of the European Economic Community (the predecessor of the European Union). In other words, Mundell (1961) developed the theory of optimum currency areas according to which the area that would share a common currency should have a large, mobile, and integrated labor market with flexibility in pricing and wages in order to sustain both labor and capital mobility. In addition to factor mobility, an OCA would

have similar business cycles and thus, a centralized budget to balance the asymmetry of the economies.

Labor mobility is seen as an essential element of the OCA and thus, it is ought to be considered as a central function of the EMU's effective operation. In relation to an economic union, it can be seen as a method of adjusting to asymmetric economic shocks in the currency area, that are defined by Jager and Hafner (2013) as economic shocks in which the impact on the currency union's member states' economies differs widely. Indeed, labor mobility is an adjustment mechanism especially as the Eurozone member states have been proven to respond to national differences in unemployment during economic crises better than the rest of the EU (European Commission, 2014; Huart and Tchakpalla, 2019). This therefore shows that the Eurozone member states' labor force answers better to asymmetries and the movement of labor functions as a stabilizer to a greater extent. The heterogeneity of the Eurozone's member states is quite evident, and the monetary union thus needs the movement of labor to better adjust to asymmetric shocks. De Grauwe (2013) points out that labor mobility is one of the only methods of internal devaluation for the Eurozone in the absence of a unified fiscal policy. Even if the movement of labor is not the only element for an effective OCA, it may be considered as the most important one for its abilities to stabilize unemployment differences around the currency area.

Considering the other elements of the OCA, the different member states having similar business cycles, in addition to labor mobility, is another means of absorbing asymmetric shocks. Similar business cycles form as a result of economic integration by increasing trade and financial linkages (Azcona, 2019). However, even though in theory, the similarity of business cycles is seen as feasible, Jager and Hafner (2013) point out that differences in business cycles are, however, considerable in the Eurozone by displaying enormous differences in for example the average income levels of different member states. Lacking similar business cycles has the potential to make the EMU very fragile if the movement of labor stays insufficient. Flexibility both in prices and wages is needed in order to sustain the movement of both capital and labor in the OCA. Krugman (2012) states that prices and wages are quite far from flexible in the Eurozone, and changes to relative prices and wages should rather be

made through devaluation than renegotiating contracts. Yet, the possibility of fiscal integration in the Eurozone is seen quite distant today (Dustmann and Preston, 2019). The OCA theory proposes a centralized budget to balance the asymmetries of the currency area in order to redistribute capital to areas which have perhaps suffered from low mobility of labor and capital. The ideas of the introduction of a common fiscal policy are somewhat consistent with the notion of the redistribution of capital. However, it is politically fairly difficult to accomplish due to the differing opinions of the member states considering the further capital redistribution to areas having suffered economically the most (Frieden and Walter, 2017). Although all elements of the OCA are very important, Krugman (2012) proposes labor mobility to be the most essential element for a currency area to adjust to asymmetries in the economy.

The question on why EU citizens do not take advantage of the free movement of labor is likely to be posed when examining the Eurozone through the OCA theory. Jager and Hafner (2013) point out that when first created, the EMU was thought to further the European integration process and thus, eventually transform the Eurozone into an OCA even if not being one when the EMU was founded. Schwartz (2014) claims that the Eurozone has never been an OCA as it lacks the macro-economic infrastructure which has been shown through the internal tensions between member states. Yet, Krause et al. (2014) point out that before the Eurozone crisis, the member states were much more stable and similar in terms of their economies than what they now are. It is quite clear that the asymmetric economic shocks have drifted the euro much further from being an OCA. Until this day, it is debated, whether the EMU ever filled these four criteria in 1992.

The possibility of full employment is discussed by Ritzen and Zimmermann (2018) who show that still today, a full European employment policy would be feasible even though great reforms would be needed. In addition, even if the movement of labor has not been sufficient during the asymmetric economic crises, D'Amuri and Peri (2014) show how the share of foreign-born in the EU's working age population has kept growing even though the demand of labor fell dramatically when the EU was facing the consequences of the Eurozone crisis. However, many agree that the movement of labor in the Eurozone is still limited today and thus, it cannot be referred

to as an optimum currency area (Krugman, 2012; De Grauwe, 2013; Jones et al., 2016; Berger et al., 2019). This knowledge is prone to raise concerns regarding recovery from a future asymmetric shock. A need for reforms, thus, exists to bring the Eurozone closer to being an OCA.

2.3. Labor Mobility as an Economic Stabilizer

In the EMU, labor mobility is an important means of stabilizing the economy, and literature widely agrees that it should be used to a further extent in order to better balance demand and supply shocks of labor (Jager and Hafner, 2013; European Commission, 2014; Zaiceva, 2014; Basso et al., 2019). Labor mobility is clearly a growing trend in the EU and offers both the sending and receiving countries a win-win situation. Zaiceva (2014) emphasizes that migration has the ability to absorb excess labor force in sending countries and thus it contributes to an overall lowered unemployment. This has been the case especially when observing the newer EU member states. However, the southern members of the Eurozone have, mostly because of the Eurozone crisis, faced extremely high unemployment which, according to Krause et al. (2014) is taking the EU further away from an integrated single market which is a central component of an economic union. Literature does acknowledge the asymmetry present in the European economy and generally proposes labor mobility to be one of the most essential economic stabilizers for the Eurozone. Thus far, even if it is not at a level significant enough, it is still seen as a trend that has the potential to facilitate a faster method for the EMU to recover from a future asymmetric shock (Arpaia et al., 2016; Krause et al., 2017; Basso et al., 2019).

In the case of an economic shock, migrants tend to be more mobile than natives in terms of labor which helps the economy to stabilize according to Basso et al. (2019). They found that the areas with low presence of migrants are more prone to shocks in terms of unemployment. This promotes the idea that migration of labor force is a win-win for both sending and receiving countries if it is present in the area. This knowledge should bring the decision-makers of the EU motivation to further encourage labor mobility to regions where the shares of migrants are insignificant. D'Amuri and Peri (2014) take this idea even further by proving that migration pushes natives towards

more complex jobs, and thus, their study proves a null impact of immigration on natives' employment. This implies that we can, in an environment with a quite flexible labor market, rule out the negative effects of labor mobility even though it would represent the best-case scenario. And even if, from a macroeconomic point of view, labor mobility shows a win-win situation in the case of the EMU, Hasselbalch (2019) shows a different perspective and brings out the loss of human capital for the sending countries as a major issue for EU member states that have faced large numbers of emigrating labor force. He explains the insignificant reforms reflecting brain drain by a *slow-burning* reaction of the Eurozone crisis implying that reforms take place only after several years after the initial reactions were taken to the economic shock. In the sense of research of the impact of labor mobility on the EMU, the possible reforms made to decrease brain drain, would have complicated the mobility of labor in the EU, and thus, this research. Yet, the benefits of return migration are, more often than not, shown to outweigh the costs of brain drain (Zaiceva, 2014; Zapata-Barrero, 2016; Dustmann and Preston, 2019).

The fact that labor mobility absorbs 25 per cent of asymmetric economic shocks, is implied by research (European Commission, 2014; Arpaia et al., 2016). Even though labor mobility in the EU still is marginal, citizens of another EU member state make about 4,2 per cent of the people employed in the EU (European Commission, 2020). The stabilizing effects of this low intra-EU mobility percentage seem to have been significant considering its estimated consequences on absorption of up to a quarter of an asymmetric economic shock. The opinions of labor mobility being a good method of stabilizing the economy in the Eurozone, vary from country to country, even when interviewing labor economists (Krause et al., 2017). The Southern European respondents were generally more pessimistic about the functioning of the EU, and often expressed a need for an EU-wide welfare system in order to decrease the asymmetry and further stabilize the economy. It is not surprising, that the economic state a country is in, affects the opinions of everyone on the functioning of the EMU and the extent, to which labor mobility can absorb shocks. Research shows clearly a need for a more integrated EU in terms of labor mobility as this is able to stabilize the economy in a significant way. Huart and Tchakpalla (2019) support the idea of a more integrated Eurozone in terms of labor mobility but acknowledge the unsurprising fact that countries with lower unemployment rates and higher average

wages are expected to have higher net inflows of migrants. This can be seen as something that has the ability widen the regional income disparities, which can increase the heterogeneity of the euro area's economies.

The free movement of labor in the EU has not only improved the opportunities for an individual but also for the Eurozone's stability. In addition to absorbing asymmetric shocks in the Eurozone, labor mobility has been shown to improve a more efficient matching of skills to positions (Eichengreen et al., 2014; Zaiceva, 2014). At the same time however, many migrants, especially from the EU-12, are working in positions they are overqualified for (Kahanec and Guzi, 2017). One could easily think that the 'down skilling' of migrants would lead to them not making a living that would be considerably different from that in the country of origin. Yet, Elsner (2013) proves an average wage increase of 6,6 per cent for Lithuanian migrants who, after the enlargement migrated mostly to the UK and Ireland. He still takes into account that immigrant and migrant workers are indeed overrepresented in low-skill occupations even if their level of education would be higher. The general positive effect on wages and higher chances of employment are more often than not, incentives for migration and are likely be the most important ones in the future as well considering intra-EU migration.

Mundell's (1961) views were quite Keynesian and hence, he wanted to make sure that in the process of letting go of their monetary sovereignty adopting a common currency, the member states would have methods of adjusting to asymmetric economic shocks. As devaluation of the currency would no longer be a way of adjusting to asymmetric economic shocks, the labor markets would have to be very mobile and integrated. The role of the theory of optimum currency areas did not have a central role in determining how the EMU would work as the decision-makers leaned on monetarism at the time of foundation and thought the theory was irrelevant (De Grauwe, 2013). It is, however agreed that the growth of labor mobility in the Eurozone would positively affect its integration (Kahanec et al., 2016; Krause et al., 2017). Taken into account the positive correlation between labor mobility and economic integration, it seems bizarre that the decision-makers of the European Union in 1992 did not put as much emphasis on labor mobility as they perhaps should have when founding the EMU.

Literature generally agrees that the decision-makers of the EU widely relied on the notion that economic integration is automatically followed by increased welfare, when founding the EMU. However, it is quite clear that it is not on the level one would expect from a fully integrated monetary union. Arpaia et al. (2016) agree that even if labor mobility has constantly been increasing over the years, its magnitude is not sufficient for the Eurozone to be considered an OCA. Overall, however, it is clear that EU labor mobility is on an upward trend. The development is quite slow, but migration also from non-EU member states has improved the situation in the European labor market (European Commission, 2019). The recent development shows that the EMU does need reforms to find concrete ways to increase the extent to which countries can internally devalue the euro. Furthermore, Kahanec and Zimmermann (2016) propose for example EU-wide recognition of professional qualifications and a legislative framework for cross-border employment. These reforms would be implemented by the whole of the EU; furthermore, they would increase the role of labor mobility and therefore, ensure the EMU's more effective operation.

2.4. Eurozone Crisis and Role of EU Labor Mobility

The Great Recession of 2008 that begun from Wall Street affected almost every economy of the world in some way. Yet, economies of multiple countries recovered in a decent amount of time, which was not the case for the Eurozone with a common monetary policy and very little methods for internal devaluation. However, some of the economic shock was absorbed by the free movement of labor in the Eurozone which responded quite well to national differences in unemployment rates during the crisis (Huart and Tchakpalla, 2019). It is widely shown that the Eastern Enlargements of the European Union in 2004 and 2007 had a positive effect on labor mobility during the Eurozone crisis as labor force from the new EU member states was generally more mobile than from the old member states (Arpaia et al., 2016; Kahanec et al., 2016; Kahanec and Guzi, 2017; Basso et al., 2019). Again, the movement of labor is something that should be further considered by the European decision makers. Furthermore, lesser amounts of labor mobility are correlated with economic shocks

having stronger effects on the economies of certain Eurozone member states which is discussed by Basso et al. (2019). During the Eurozone crisis, literature overall agrees that the EU and non-EU labor force was mobile and helped the EMU absorb the economic shock to some extent, but it clearly was not sufficient as some of the southern member states of the Eurozone such as Spain and Greece are still in the process of recovery.

Before the Eastern Enlargements, the governments of the EU member states (EU-15) were concerned about a mass-migration from the new member states after the enlargement leading to a race to the bottom, and put transitional periods of as long as seven years restricting labor mobility from the new member states (Gajevska, 2006). These transitional periods came to an end about at the time when the Eurozone crisis began which has been shown to have a positive effect in terms of intra-EU labor mobility. Kahanec and Zimmermann (2016) show that since 2004, 1,8 per cent of the population of the 'new member states' have migrated to EU-15. However, the macroeconomic impact of this migration has been quite low. Yet, some member states of the EU faced quite large inflows of migrants throughout the 2010s. For example, out of the whole German population, migrants make up about 9,05 per cent (Zapata-Barrero, 2016) and this furthermore shows how Germany especially became a hotspot for intra-EU migration when the transitional period it had set on the new member states' labor force came to an end in 2011. In addition, non-EU migration has significantly grown in dimension throughout the years (Kahanec and Zimmermann, 2016). Furthermore, the numbers should be larger today. It would seem that the mobility of labor helped the absorption of economic shocks, even though the amount was quite insignificant when observing the bigger picture, and that is what caused the EMU to almost break down. D'Amuri and Peri (2014) agree that during the Eurozone crisis, the shares of migrants and immigrants have grown although the demand for labor significantly decreased at the same time. When the recovery from the Eurozone crisis began, the Eurozone was quite swift in its movements to create new reforms which are thought to help the recovery from future asymmetric economic shocks.

Since the EMU was founded, ideas on developing fiscal integration in the Eurozone have been around to further the stabilization of the European economy during an

asymmetric shock. The heterogeneity of the member states' economies was considerable already before the Eurozone crisis. Eichengreen et al. (2014) state that some countries' governments had significant fiscal excesses and imbalances already before the crisis. And when the crisis was upon the Eurozone, the recovery process was thus even more difficult for these member states. The extremely slow recovery from the Eurozone crisis has left many hoping for the member states to take a step further in the fiscal integration process (Kundera, 2014; Jones et al. 2016; Frieden and Walter, 2017; Berger et al., 2019). Even though research seems quite certain that integration to a fiscal union would be feasible, it would be politically quite hard to achieve due to the different social structures in the different member states of the Eurozone. The notion of fiscal integration being politically a sensitive issue is taken into account by research surprisingly little. Dustmann and Preston (2019) take a different stance to the question on the need of a fiscal union by pointing out that more similarity is needed in order to increase the mobility of labor as that would help economies fill demand gaps for labor. Even though supportive of the idea of a fiscal union, Frieden and Walter (2017) recognize the unwillingness of the surplus countries to the centralization of fiscal policy in the Eurozone. Considering that the fiscal union would be extremely difficult to implement due to differences in political stances, the movement of labor would be something the Eurozone should furthermore focus on.

Labor has been shown not to be mobile enough during the Eurozone crisis and the question on why that is remains to be fully answered. Jones et al. (2016) discuss how the member states were reluctant to make significant reforms and thus responded to the crisis with incomplete, minimal reforms. The Eurozone crisis has contributed to the tensions that have lately grown around the EMU. Berger et al. (2019) furthermore state the fact that indeed most of the burden was carried by the surplus countries' taxpayers. De Grauwe (2013) adds that it has caused the surplus countries to start lacking trust on the crisis swept ones. The lack of trust and unevenness in bearing the costs could be a feasible answer to the question but not enough to fill the gap in the knowledge on the question on why the free mobility of labor was not sufficient. During the crisis, labor mobility was higher in the Eurozone than it was before it, and individuals were further incentivized by the unemployment differentials between the member states of the Eurozone (European Commission, 2014). Yet, even though the supply of labor rose during the Eurozone crisis, the demand faced a dramatic

downfall. Arpaia et al. (2016) focus as well on the long-term benefits of the movement of labor by utilizing a vector autoregression to prove that the effects of labor demand shocks are transitory when firms and labor are mobile enough. It is important to note that the euro area's labor force was more mobile than the EU's as a whole.

The dramatic decrease of the demand of labor has led to significant unemployment, especially for the youth in the countries that were hit hardest by the crisis. A comparison of Ghosray et al. (2016) for example shows how Spain's youth unemployment has more than doubled from the time the EMU was founded. The striking increase of youth unemployment in the member states of the Eurozone that suffered from the crisis the most, further shows what Jones et al. (2016) meant by minimal reforms during the crisis in order to encourage the European labor force to move. Although, almost all of the Eurozone's member states implemented some sort of program for the training of the unemployed (European Central Bank, 2012). These reforms were quite minimal, as some member states are yet to recover from the Eurozone crisis. It still needs to be taken into account that labor force was not immobile during the crisis as Zaiceva (2014) pointed out that most of the migrants were young and their skills ranged from low to intermediate. Yet, it needs to be noted that low-skilled, temporary, and young workers were the most affected by the Eurozone crisis (European Central Bank, 2012). The mobility of labor force affected most by the economic shock should be considered a likely effect and thus, it is not surprising that literature discusses it quite a lot. A situation in which the demand and supply of labor are far from equilibrium, certainly causes additional barriers to the mobility of labor. It is well noted that European labor markets and wages should have been more flexible during the asymmetric economic shock (De Grauwe, 2013; European Commission, 2014). However, at the moment, youth unemployment is one of the most substantial problems the EU is facing to which Kahanec and Zimmermann (2016) recommend changing EU law in a way that could deepen the integration process which would as a consequence, lead to an increase in the mobility of labor inside the EU.

2.5. Barriers of Intra-EU Migration

Even if the decision to migrate into another EU member state can result a win-win situation for not only the migrant, but to the sending and receiving countries, the decision to leave one's own country is all but easy for the individual. However, Krause et al. (2017) show that on a microeconomic level, the migration decision is an investment as when the net gain from migrating exceeds the gain of not moving it is automatically seen as something that encourages the movement of labor. Even if the European Union offers its citizens the free movement of labor, this still has many barriers that can, to an extent, restrict mobility. For example, same kinds of barriers tend not to exist in the USA to the same extent as in Europe. Basso et al. (2019) present examples such as the imperfect transferability of skills and professional qualifications from one member state to another, language barriers, and different regulations in social security. Thus, the barriers could roughly be divided into administrative and cultural ones. These barriers have often caused the 'down skilling' of foreign labor force which is seen especially clearly in the member states that have joined the EU after the Eastern Enlargement in 2004 (Elsner, 2013; Zaiceva, 2014; Dustmann and Preston, 2019). Elsner (2013) adds that migrants are overrepresented in occupations that require a low level of skills even if their level of education and knowledge would be much higher. Further research should be conducted on the topic of down skilling of migrant labor force taking into account that it generally is more elastic than native labor force.

Although the EU member states are quite similar in terms of their legal structures, the cultural barriers are the hardest to eliminate. According to Kahanec et al. (2016) there is almost nothing decision makers can do about the cultural barriers as the EU is culturally extremely diverse. Yet, what incentivizes the migrants most are the increased opportunities due to a possibility to a higher standard of living (Elsner, 2013; D'Amuri et al., 2014; Zapato-Barrera, 2016). The Eastern Enlargements of 2004 and 2007 clearly demonstrate that the cultural barriers in Europe tend to lose their significance which Popescu and Alpopi (2017) prove by showing an increase in both employment and participation rates around the EU. Zaiceva (2014) agrees and states that this was partially a result of Intra-EU migration. Today, the EU is getting more and more connected which can absolutely lower the cultural barriers for migration in the EU, and thus benefit the EMU. Many EU decision-makers were

anticipating a race to the bottom when the Eurozone took its first steps in 1999. This fear was also addressed by Krueger (2000) who yet supported the idea of an increased mobility of labor to enhance the Eurozone's economic efficiency. Many of the initial fears of the decision makers of the EU had turned out to be unnecessary as research has clearly proven that the movement of labor increases both the wages of migrants and natives (D'Amuri and Peri, 2014; European Commission, 2014; Bertola, 2016). The implications made by literature thus suggest a stronger integration and lowering of barriers still understanding that lowering the cultural barriers is quite an impossible task.

The Eurozone crisis not only raised the asymmetry and heterogeneity of the member states' economies but also drew them further away from each other in a political sense. The public opinion towards the EU is a great barrier to labor mobility in the sense that it affects the decision-making to an extent and thus, labor policies (Gajevska, 2016). However, Krause et al. (2017) found that by further integration, namely harmonizing social security systems in the EU, labor would be able to move more efficiently if for example everyone would have the right to an EU wide 'unemployment insurance'. Jones et al. (2017) continue this discussion by expressing a need for a fully integrated Eurozone by implementing a common fiscal policy. Even though a complete fiscal integration might be difficult to achieve due to differentiating opinions in the different member states, some extent of harmonization of social security would incentivize labor force to migrate. In the light of the research of the impact of labor mobility on the Economic and Monetary Union of the EU, further integration would increase the mobility of labor and function as an economic stabilizer and shorten the recovery from a future asymmetric economic shock. Furthermore, the mobility of labor force in the EU is twice as inelastic as it is in the United States (Kundera, 2013). Even though the Eurozone crisis explains, to an extent, the public opinion that has affected the political state of the EU and thus, created more barriers though Eurosceptic attitudes, research implies that further integration to encourage migration would be needed.

Since the burden of the Eurozone crisis has been carried by the surplus countries' taxpayers, the tensions and Eurosceptism that followed should not come as a big surprise. Schwartz (2014) recognizes that it is primarily the northern member states

of the EU that are reluctant to capitalize new crisis response agencies to help bail out the peripheral member states; Greece, Spain, and Portugal for example. The perceived Euroscepticism shows thorough some of the northern member states' concerns about 'welfare migration'. In 2013, the governments of the Netherlands, Germany, Austria, and UK raised significant concerns in a public letter to the European Commission (Krause et al., 2017). The concerns posed by some of EU's surplus countries during the asymmetric economic shock are signs of discontent and disappointment of the EU and the Eurozone. If actions to depress the free mobility of labor would have been taken by the surplus countries, the shock-absorbing effects and the increasing trend of labor mobility (Arpaia et al., 2016; Kahanec and Guzi, 2016; Basso et al., 2019; Huart and Tchakpalla, 2019) would have been reduced by quite a lot. The overall dissatisfaction with the EMU and EU's actions is an important reason to why concerns were raised about the notion of 'welfare shopping'. This concern does not take into account the benefits the mobility of labor offers the diverse economies of the Eurozone's member states. Governments' concerns should turn unnecessary, especially as the free movement of labor is vital for the EMU's longevity especially at times of financial instability.

Being regarded as one of the most important components of the Optimum Currency Area, methods of internal devaluation, and economic stabilization within the European Union, labor mobility has some downsides to it. Most see brain drain as a potential issue that is a consequence of an increased mobility of labor (Zaiceva, 2014; Zapata-Barrero, 2016). Hasselbalch (2019) on the other hand, sees it as a policy issue only paid attention to long after looking for solutions to the existing crisis, and not taken seriously enough by the decision-makers of the EU. Many of the decision-makers in the eastern member states of the EU have arguably had doubts about brain drain being an issue. Elsner (2013) further shows a mass-migration of especially young Lithuanians to Ireland and the UK after the Eastern Enlargement took place in 2004 but yet, the overall unemployment rates of the newer member states have decreased since the enlargement. This development can be seen as a direct consequence of an increased intra-EU mobility of labor. In addition, the mobility of skilled young labor force can solve demographic challenges in member states starting to experience the aging of the labor force (Zapata-Barrero, 2016; Krause et al. 2017). However, as non-EU migration is quite similar in weight to intra-EU

migration (Arpaia et al. 2016; Basso et al., 2019) it would be expected to play a more significant role in solving demographic challenges, out of which the aging of the European population can be considered as one of the most demanding ones. Gaps in research on the mobility of labor in the EU exist in terms of determining the possible effects on solving demographic challenges with the mobility of labor taking into account the movement of EU and non-EU citizens. Hence, although the mobility of labor has its threats, the most important one being the loss of human capital, research quite widely agrees that even though it is a threat in the long run, advantages of the mobility of labor outweigh the costs.

The administrative barriers would be the most essential to lower to incentivize the movement of labor. The transferability of qualifications has been shown as one of the key issues present in the EU (Krause et al, 2017) which has shown to be one reason why many migrants are employed in positions that do not match their skill-level (Elsner, 2013; Kahanec et al., 2016; Kahanec and Guzi, 2017; Dustmann and Preston, 2019). Although the decision to migrate can be seen as an investment on the microeconomic level due to better opportunities to find employment and better wage than in the country of origin, employers not seriously taking into account the skill-level of the migrant implies certainly that further transparency in the transition of qualifications is needed. According to the study conducted by Krause et al. (2017) over 50 per cent of their respondents imply that reforms in order to help the mobility of labor develop should be implemented to reach a more unified European Union in terms of public opinion and most importantly, integration. Syed Zwick and Syed (2017) found that the EU is extremely heterogenic in terms of their labor market characteristics but yet, the member states of the Eurozone proved to be more homogenic than the EU as a whole. This proves that making EU-wide reforms would be very important, but however, deciding on what kinds of reforms are needed is almost impossible because of the different political stances throughout the EU. Overall, the main implications relevant to the study of the effect of labor mobility on the EMU, are the possible reforms concerning a more unified transition of professional qualifications and some extent of fiscal integration implying social security, in terms of perhaps an EU-wide 'unemployment insurance'.

2.6. Longevity of the EMU

The longevity of the EMU has been intensely debated ever since the Eurozone crisis took place and drove the Economic and Monetary Union of the EU to a point where it had to bail countries out in order to avoid almost a bankruptcy of some member states. In 1992, when the foundations of the EMU were created, the decision-makers at the time were warned about the possibility of economic shocks in the future due to different business cycles and a lack of factor mobility but they assumed that the steps taken in the integration process would eventually make the Eurozone an OCA (Azcona, 2019). The theory of Optimum Currency Areas was brought up much later when the Eurozone crisis took place, and research quite widely agrees that today, the currency area is quite far from being an OCA but the member states are too interdependent of each other to let the currency union fail (Krugman, 2012; Schwartz, 2014; Jones et al., 2016; Azcona, 2019). The discussion of Bertola (2016) emphasizes how labor policies are a direct consequence of economic and financial integration to which the EU should aim at. Thus, the recent literature in both labor economics and political economy sees the Euro as ‘a currency without a country standing behind it’. This is why this literature review considers further integration a necessity for the EMU to function in an effective way. However, the European Central Bank (2019) shows that unemployment around the Eurozone has decreased from 10 per cent of the labor force in 2016 to 6,7 per cent in 2019. It is well-known that the movement of labor would eventually create a more integrated EMU. Schwartz (2014) argues that the Eurozone should change its macroeconomic positioning as it is lacking both political and macroeconomic infrastructures to operate as an international currency as the imbalances between the northern and southern member states are enormous. Many see that the Eurozone is almost doomed to fail due to its fragility if it faces a crisis as severe as the Eurozone crisis was to most of the Southern members of states. However, the lowering of EU-wide unemployment rates shows potential for a more effective functioning of the Eurozone.

The idea of ‘failing forward’ (Jones et al., 2016) is an appropriate way of describing the actions the decision makers have been taking by not being willing to take responsibility of making these reforms. Not taking into account the vast possibilities the free mobility of labor in the EU offers as a method of internal devaluation and thus, economic stabilization, is a great mistake as it has the ability to absorb 25 per

cent of economic shocks in the EU (European Commission, 2014; Arpaia et al., 2016; Krause et al., 2017). This implies a need for action as it is a fact that without a national monetary policy, and very little means of common fiscal policy (the ESM and Growth and Stability Pact), the EMU is extremely fragile to asymmetric shocks. Research widely agrees that the movement of labor provides both the sending and the receiving countries a win-win situation as documented by Ritzen and Kahanec (2017) who see that in the future, what has a great potential to be a pull factor for intra-EU migration is primarily the increased opportunities in the labor market.

If reforms suggested by research would be implemented to further drive the economic integration and thus, mobility of labor in the EU, the asymmetries of the euro area's economies would start stabilizing. This stabilization brings the Eurozone closer to being an OCA and should improve the overall welfare of the European citizens. Furthermore, Ritzen and Zimmermann (2018) claim that one day, a full European employment would be possible to reach but this process would be extremely slow. However, if migration is incentivized, in addition to offering an important method of adjustment, it has tremendous opportunities in solving demographic issues in the EU, such as the aging of the working age population. Even if some research does so imply, the EMU should not be considered doomed to fail. For now, the primary method of adjustment in the EMU is labor mobility (Jäger and Hafner, 2013) which is still lacking due to the supply of labor being quite inelastic in the short run. However, the major trend shows that the elasticity of low-educated labor force has been increasing (D'Amuri and Peri, 2014). And even during the Eurozone crisis, labor force within the EU responded better to unemployment shocks, and the mobility of labor has been on an upward trend since, which Dustmann and Preston (2019) discuss emphasizing that the objections concerning migration in receiving countries are more often political and cultural than economic. In the economic sense, the movement of labor has more winners than losers. It truly is bizarre, that when discussing the Eurozone crisis, and the methods of adjustment, Frieden and Walter (2017) do not cover the movement of labor force as a method of economic adjustment or internal devaluation. Based on recent literature, the movement of labor is the most essential method of adjustment in the European Union. Overall, the EMU is widely dependent on the mobility of labor. If it does not take action in further incentivizing labor mobility in the future, the Eurozone stays

fragile, and research does not indicate, whether the growing mobility of labor helps the European economy recover any faster than from the previous asymmetric shocks. If the labor force would be more mobile, the surplus countries of the Eurozone would not have to be afraid of the taxpayers having to carry the burden of recovering from an economic shock. Unquestionably, the EU should take the integration further to reduce the asymmetry of the European economies.

2.7. Summary and Conclusions

To summarize, this review of recent literature revealed that the state of the Eurozone is quite fragile at the moment, but potential for a more integrated and effective monetary union exists through the movement of labor. Labor mobility has been on an upward trend since the Eastern Enlargements of 2004 and 2007 but was not at a level significant enough to function to its full extent as a shock absorber during the Eurozone crisis. However, one simply cannot deny its abilities to absorb economic shocks and asymmetry around the euro area. During its foundation, the Eurozone was not an optimum currency area (OCA), and the recent economic crises have drifted it farther from being one. The integration towards advancing factor mobility is primarily what takes the Economic and Monetary Union of the EU closer to being an OCA. The integration needed to promote the movement of labor would largely be about lowering the administrative barriers in the EU for the movement of labor. In reality, lowering the barriers takes an extensive amount of time, but it should to be done as the movement of labor does provide a win-win situation for both the sending and receiving countries. One should still remember, that the employment rate of those with a nationality of another EU member state is 78 per cent compared with 59 per cent for non-EU citizens (European Commission, 2019). Even though the migration of EU and non-EU citizens is proven to be similar in weight, the knowledge of a more assured employment should work as an incentive for migration for the citizens of the EU, especially when the Eurozone is hit by an economic shock.

2.8. Conceptual Framework

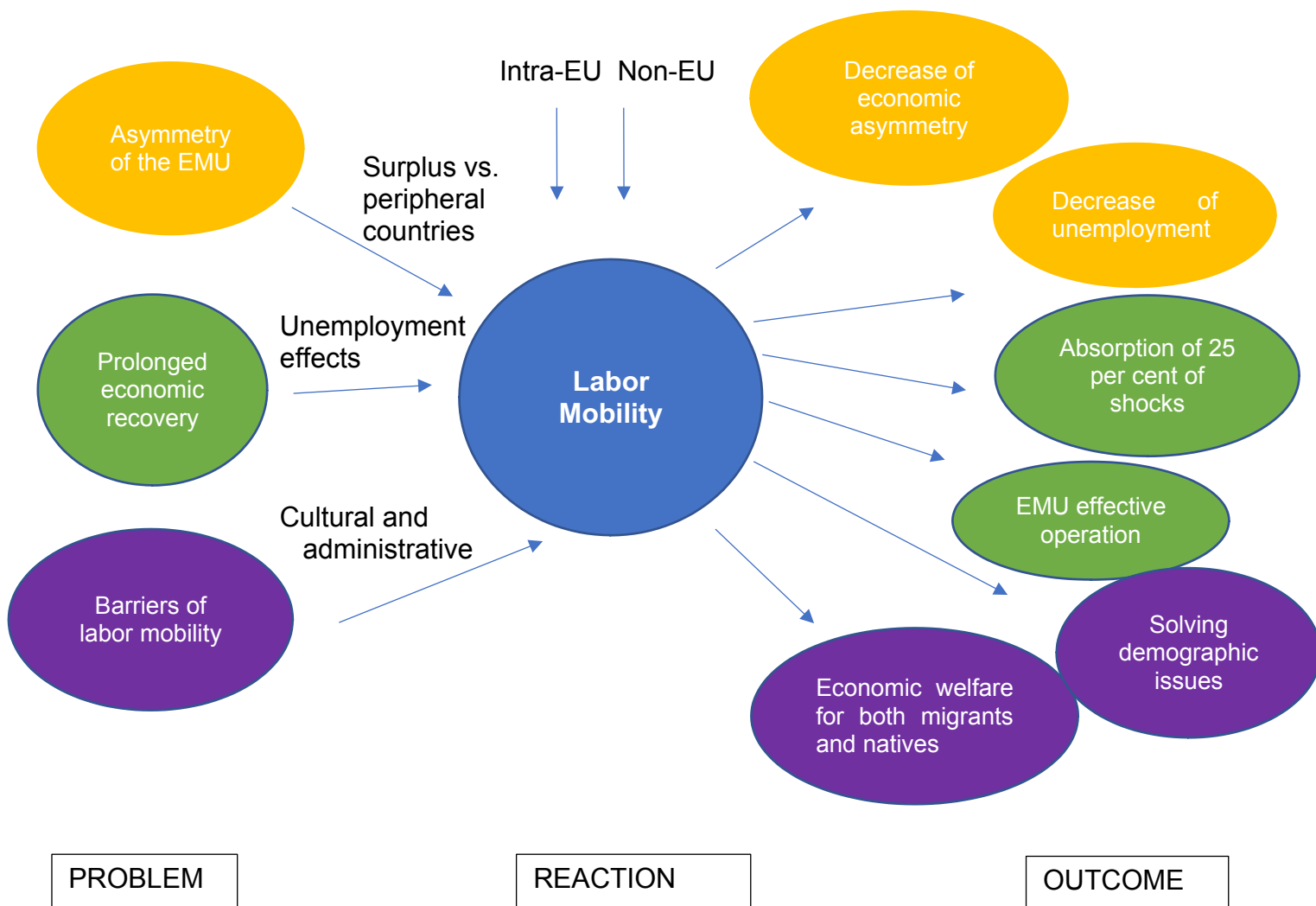


Figure 2.1 - Conceptual Framework on the Impact of Labor Mobility on the Economic and Monetary Union of the EU (Laakso, 2020)

3. METHODOLOGY

This research compares the similarities and differences in the labor mobility of Germany and Spain, two different member states of the EU that are both part of the Eurozone, before, during, and after the Eurozone crisis while observing general trends in the movement of labor in the EU member states. The qualitative research exploits both primary and secondary data. The impact of labor mobility on the E(M)U is studied by analyzing and identifying the possibilities it can provide to the Eurozone.

3.1. Collection of Primary Data

The primary data for this research was collected through interviewing four experts on the subject of labor mobility, representing three different member states of the EU, described below. Utilizing experts from the EU institutions in both decision-making and specialist roles was done to ensure the versatility and trustworthiness of the data. The sampling method utilized was judgement sample. In other words, the researcher looked for interviewees by contacting persons and EU institutions with generally known expertise and work experience in relation to European labor mobility.

All the interviewees had a chance to preview the questions and to get prepared for the interview estimated to last a maximum of 20 minutes. The language of interview was English in all cases. Three interviews were conducted via phone. One interviewee sent her answers via email due to time management issues concerning an interview. The interview was structured; hence, all participants were asked to answer the following four questions:

1. The free mobility of labor has been said to be the most important method of internal devaluation and stabilizer of economic shocks in the EMU. What are the benefits of an increased labor mobility in the euro area?

2. Literature proposes many kinds of reforms to be implemented to further incentivize the movement of labor in the Eurozone. What kinds of reforms do you think would be required and feasible to further increase labor mobility?
3. The movement of labor in the EU is on an upward trend, what do you think will become the most important 'pull-factor' for migration in the EU in the future?
4. Can the mobility of labor assure the longevity of the EMU and shorten the Eurozone's overall recovery from an economic shock? Do you think labor mobility in the EU will reach a level significant enough to provide a decrease in the heterogeneity of the economies of the Eurozone in the future?

The characteristics of the interviewees were as follows:

	Employer	Role	Nationality
Interviewee #1	The European Parliament	Member of the European Parliament	Finnish
Interviewee #2	Permanent representation of Finland to the EU, Brussels	Senior Specialist, employment matters	Finnish
Interviewee #3 P.B.	The European Commission	Economic Analyst, Directorate General for Economic and Financial Affairs	French
Interviewee #4 M.B.	The European Commission	Policy Analyst, European Political Strategy Center (EPSC)	German

The interviews were then recorded and transcribed onto a Word document. Thematic analysis is utilized to identify and to discuss the findings made.

3.2. Collection of Secondary Data

The secondary data was collected primarily through Eurostat, maintained by the European Commission. The actions taken by Germany and Spain to recover from the Eurozone crisis are highlighted as illustrative examples of two different E(M)U member states belonging to the Eurozone. The reason these two member states were chosen for this research was their highly variable means to handle their national economic recoveries. The employment and unemployment rates of Spain and Germany as well as inflows and outflows of labor are examined as major variables over a time period covering 1999 to 2019 by examining the secondary data obtainable. The prevailing macroeconomic situation is evaluated through this data. The secondary data is presented as it is. In other words, it is not manipulated in any way keeping hence this research qualitative.

3.3. Case Study Context

This case study was conducted in the following way. First, the situation regarding the mobility of labor before the Eurozone crisis in Germany and Spain is analyzed through comparison. Second, the Eurozone crisis is analyzed in the two member states through discussing the movement of labor. Third, the economic recovery and current situation in both countries is discussed through highlighting the main opportunities for intra-EU labor mobility to solve issues. The secondary data in the countries of interest (i.e. the statistical data publicly available from the European Commission and European Central bank) and other data provided by secondary literature search are used in order to find answers to the study objectives. Amongst secondary data provided by various EU institutions, this case study evaluates secondary data some of which has been reviewed in the previous section. This data is compared, in the discussion section, to the primary data obtained by interviewing experts working for the EU to see whether the case study concerning only two member states, Germany and Spain, might apply throughout the Eurozone.

3.4. Limitations of Methodology

The methodology chosen for this research is, as always in academic research, restrained by limitations. Primarily, the number of interviewees was limited, and the process of searching for those working closely with the issue of labor mobility in the EU was time-consuming and arbitrary due to the sampling method chosen. The language chosen for the interview was English, which may have caused a language barrier as none of the interviewees was a native English speaker. One of the interviewees answered the questions in writing via email which limits the extensiveness of the answers given. In addition to other limitations concerning the primary data collection, it needs to be noted that four interviewees, although being experts in their own areas, cannot give answers that would be fully representative of the situation of the EMU as a whole or all its different member states.

Secondly, the complete data available from Eurostat's labor force survey is not open without a specific permission which was not acquired for the research of this thesis. This research was limited by the generality of the data available to a large extent. As the case study was conducted utilizing only secondary research, the exact magnitude of labor mobility has been extremely hard to assess as a consequence of data being mostly descriptive. However, the findings are justified with the volume of data acquired by conducting both primary and secondary research.

4.FINDINGS

4.1. Case Study Comparing Two E(M)U Member States' Labor Mobility

Germany and Spain, as the first and third most common receiving countries of migrants in the EU in 2018 (European Commission, 2020), respectively, have taken extremely different measures to recover from the Eurozone crisis. Labor mobility in the countries of interest before, during, and after the Eurozone crisis is assessed thoroughly in this case study. These two member states of the EMU and thus, the Eurozone, both belong to the EU-15, i.e. the countries that joined the EU before the 2004 Eastern Enlargement. The extensive differences in these countries' economies can be partially explained with the fact that Germany is the 'heart' of the Eurozone

known to have a strong economy. Spain, on the other hand is a peripheral member state of the Eurozone having had relatively high unemployment rates for both nationals and intra-EU migrants throughout the period of time assessed. As the literature reviewed above points out, the transitional periods, that came to an end two and seven years after the enlargements for Spain and Germany, respectively, have increased intra-EU labor mobility which has promoted the economic recovery from the Eurozone crisis.

The most significant flows of intra-EU labor mobility could be divided in three parts: 1) the initial flows following the Eastern Enlargements of 2004 and 2007, 2) the reaction of labor force to the Eurozone crisis, and finally 3) the flows stimulated by the economic growth and increased demand of labor. This comparison of labor mobility between Germany and Spain is constructed in the following manner: first, similarities and differences in labor mobility were found in both member states before the Eurozone crisis. Second, actions taken to encourage labor mobility and economic recovery during the Eurozone crisis were discovered to be very different in the member states of interest. Last, the extent of labor mobility during the recovery from the crisis turned out to be again, quite different between the two selected member states, that today, are among the most significant receiving countries of migrants.

4.1.1. Labor Mobility Before the Eurozone Crisis

In 2009, the employment rate of nationals compared to intra-EU migrants was greater in both countries of interest, nationals' employment being 0,9 and 5,6 per cent greater than that of intra-EU migrants' in Spain and Germany, respectively (European Commission, 2019). However, both countries had implemented transitional periods for migrants coming from Romania and Bulgaria which both joined the European Union in 2007. Rodriguez-Planas and Farré (2016) have described that before the crisis most of the migrants in Spain were Romanian, Bulgarian, and Polish despite the transitional periods, which restricted the movement of Romanians and Bulgarians until the 1st January 2009. Furthermore, they have shown that the average annual inflow of migrants to Spain was around 500 000 before the Eurozone crisis. Before the crisis, Spain's public debt was low compared to the country's GDP, and the unemployment rate was kept quite low thanks to a trend of making temporary

employment contracts (Fishman, 2012; International Labor Organization, 2015). Overall, the movement of labor to Spain was considerable already before the Eurozone crisis, and the country's economy was in an economic bubble which reflects the low unemployment rate of Spain at that time.

Despite the transitional period of seven years with restrictions in labor mobility, Germany encountered an increased labor mobility from the 'new' EU member states in the years prior to the Eurozone crisis. Taken that Germany belongs to the wealthiest member states of the EU and has relatively high wages from a general European perspective, makes it a common receiving country of Intra-EU labor force. The inflation rates of the Eurozone were quite heterogenous already before the Eurozone crisis affecting prices and thus, stimulating labor flows. Furthermore, between 1998 and 2007, Frieden and Walter (2017) found that inflation in Germany averaged 1,5 per cent while it was around 3,2 per cent in Spain and caused large divergence in wages. The German labor-market institutions enforced wage restraint which was not the case in Spain. Furthermore, they show that unit labor costs in Germany decreased by 4,9 per cent while in Spain they rose by 30,4 per cent before the crisis.

The increased cost of labor, and the relatively low discount rate of the European Central Bank (ECB) at the time, can be seen behind the economic bubble which was one of the key factors behind the stimulation of the Eurozone crisis throughout the Eurozone. A contributing factor to why Spain was not prepared for an economic shock, was the lack of implementation of institutional reforms related to labor force. Spain could have implemented reforms at the time of adopting the common currency in 1999, in order to be capable of stabilizing the economy in the lack of a national monetary policy. Germany, by contrast, had implemented the act on part-time work and fixed term employment relationships in late 2000 followed by the Hartz-reforms (Goshray et al., 2016) which have played a significant role in keeping the unemployment rate low throughout the 2000s. Taken into account the significant divergences in the labor mobility reforms implemented before the Eurozone crisis as well as the divergence in the economies of the countries of interest, the strong and persistent asymmetric reaction to an economic shock is quite unsurprising.

Figure 4.1 clearly shows that the inflows to Spain were increasing already before the crisis. Romanians formed the principal group of intra-EU migrants coming to Spain as the number of them grew exponentially during the 2000s peaking at around 2011. It is worth noting that the increase of Romanian migrants got swifter after it joined the EU in 2007 despite the transitional period of two years Spain introduced for restricting the inflow of labor of Romanians and Bulgarians. Rodriguez-Planas and Farré (2016) have pointed out that in Spain, Romanians made up the second largest group of immigrants covering 11 per cent of the immigrant population in Spain after the enlargement. Despite the fact that hiring workers on a temporary basis was extremely common before the Eurozone crisis, the low unemployment rate was explained by the real-estate bubble which initiated the economic shock (Fishman 2012).

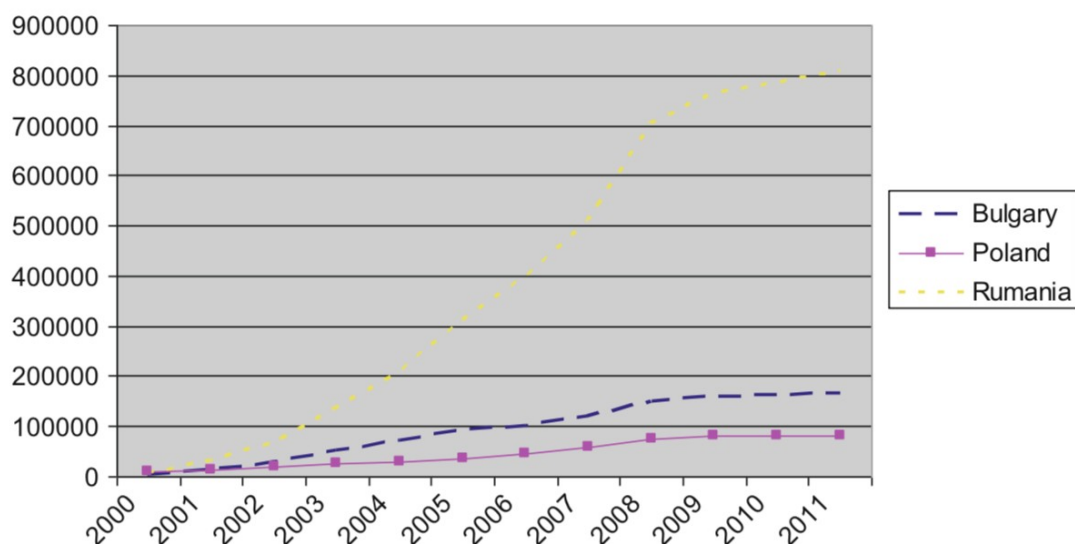


Figure 4.1 - The most important sending countries of Intra-EU migrants to Spain (Rodriguez-Planas and Farré, 2016 pg. 168)

When the EU enlargements took place, Elsner and Zimmermann (2016) showed that due to the transitional periods of 7 years for both EU-8 and EU-2 migrants restricting mobility of labor to Germany, most of the post-enlargement migration was directed towards for example Ireland and the UK. The inflows from the new member states of the EU to Germany, similarly to Spain, increased despite the transitional periods. The inflows from Poland to Germany in the period between 2000 and 2011 are the greatest out of all intra-EU inflows to Germany. The impact of restrictions to the number of inflows from Poland and the EU-2 in 2004 and 2007, respectively, was

quite marginal which can be noted from Figure 4.2. The number of Polish migrants peaked right before the Eurozone crisis took place in the German market in 2009. However, Zimmermann and Elsner (2016) emphasize that the stability of the German labor market was one of the important pull factors to the mobility of labor both from in and outside of the EU. Hence, one can notice that the employment rate of intra-EU migrants in Germany is higher than in many other countries of the Eurozone, having been 70,2% in 2009 (European Commission, 2020).

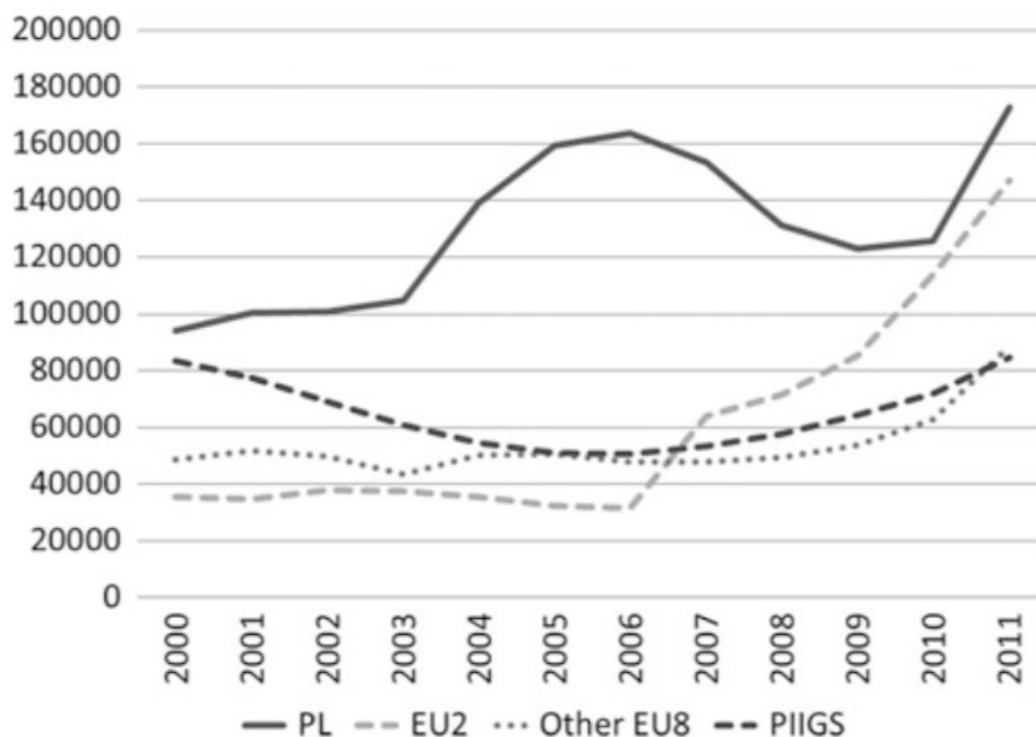


Figure 4.2 - Immigration to Germany (left), net migration (right). Notes: Left: Migrant inflows to Germany per year. Right: Net flows (inflows minus outflows) per year. PL: Poland; EU-2: Romania and Bulgaria; Other EU-8: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Slovakia, Slovenia; PIIGS: Portugal, Italy, Ireland, Greece, Spain (Elsner and Zimmermann, 2016 pg. 90)

Overall, labor mobility in both cases was on an upward trend already before the Eurozone crisis took place. In Spain, Romanians were the most significant group of intra-EU migrants as their mobility grew from about 8000 in 2000 to 800 000 in 2011. In Germany, the Polish were the most significant group of intra-EU migrants before the crisis as Figure 4.2 shows. In the case of Germany, the transitional periods

resulted in slight deceleration of the mobility of the migrants from the new EU member states excluding Polish mobility. In Spain, the transitional periods had little influence on the Romanian inflows. Furthermore, it is worth noting that Germany was an intriguing destination country also for PIIGS (Figure 4.2).

As described above, extremely divergent wages and thus, prices around the Eurozone before the economic shock, and opportunities for a more secure employment and better wage functioned as pull-factors for migration especially to economically stable Germany. However, also Spain was, before the Eurozone crisis, a very common receiving country of migrants as the unemployment rate was seemingly low due to a real-estate bubble in the economy. The divergence of the Spanish and German economies was thus quite evident. The stability of the German economy has been considered as one of the reasons Germany recovered from the economic shock without a significant increase in unemployment (Elsner and Zimmermann, 2016) whereas Spain's unemployment rate increased substantially creating significant youth unemployment to which the EU is still trying to find solutions. For example, one can notice (Figure 4.3) that the labor market reforms implemented in the early 2000s in Germany have since then steadily lowered the unemployment rate. The opposite effect is seen in Spain's case which did not implement any significant labor market reforms upon adopting the common currency in 1999.

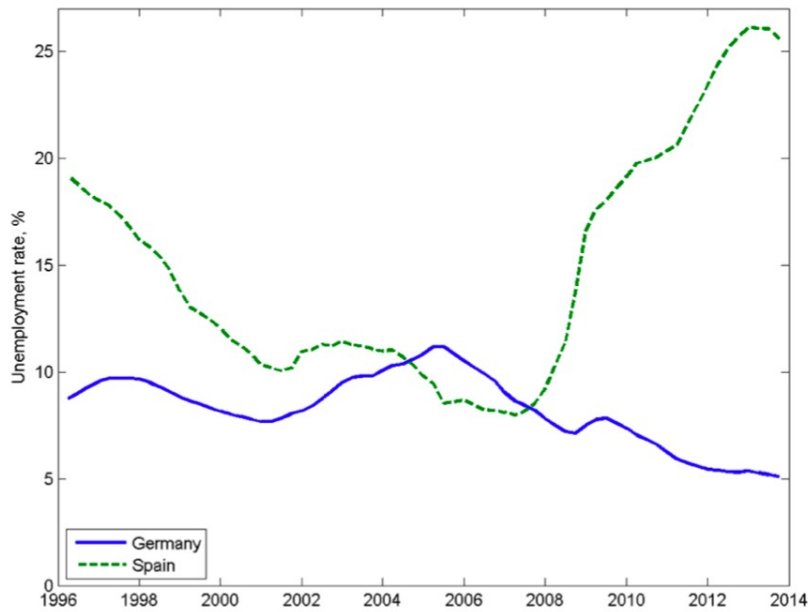
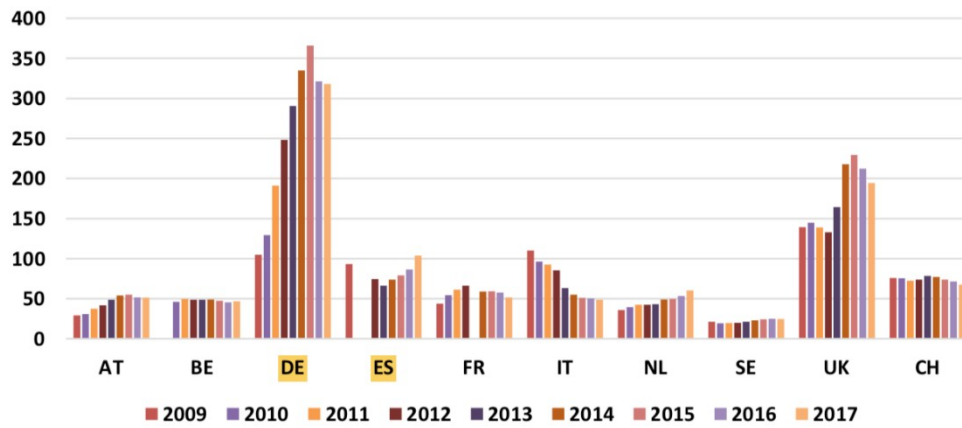


Figure 4.3 - Unemployment rates of Germany and Spain 1996-2014 (Casares and Vazquez, 2018 pg.4)

4.1.2. Labor Mobility During the Eurozone Crisis

Even though the unemployment rate in Spain increased substantially and the net inflows of intra-EU migrants decreased during the crisis, the asymmetric economic shock did not create the problems in Spain's economy (Fishman, 2012). These problems were already present before the Eurozone crisis and worsened as the amount of debt increased. In 2011, Spain reintroduced the restrictions onto the free movement of Romanian workers due to the largely increased unemployment of nationals during the crisis years (Kahanec et al., 2016). This created a clear barrier for labor mobility from the one of the most important sending countries to Spain. The high unemployment and fractured economy made Spain much less attractive as a destination country. The opposite was true for Germany, as shown in Figure 4.4 which reflects its economic stability.



FIGURES RELATE TO FOREIGN EU-28 AND EFTA CITIZENS MOVING TO THE COUNTRY INDICATED ON THE X-AXIS, REGARDLESS OF COUNTRY OF PREVIOUS RESIDENCE. FIGURES MAY INCLUDE EU-28 AND EFTA CITIZENS PREVIOUSLY RESIDING IN THIRD COUNTRIES.

Figure 4.4 - Inflows of Intra-EU and EFTA migrants to the ten most important receiving countries (European Commission, 2020 pg. 39)

The effects of the Eurozone crisis were extremely divergent across the EU which is reflected in Figure 4.4. Data available from the European Commission (2014) shows that migration flows were affected by unemployment differentials between countries. Even if mobility had been quite unidirectional mainly from east to the west before the Eurozone crisis, labor force from some of the member states of the Eurozone that were most severely affected by the crisis, i.e. PIIGS, migrated to the north. This reflects the sharp increase of inflows to Germany. The capability of Germany to deal with the economic shock to ensure rapid recovery, has been described by Syed Zwick and Syed (2017) to be highly affected by the implementation of the labor market reforms over a decade before the Eurozone crisis. In Germany, Intra-EU migrants' wage was only 75 per cent than that of natives', which Elsner and Zimmermann (2016) have brought up by emphasizing the 'down skilling' of migrants. However, the young and low-skilled migrants which were affected by the crisis the most, still earned relatively more in Germany than they would have in their sending country (Dustmann and Preston, 2019). Hence, the crisis made Germany much more attractive to migrants.

The outflows of Spanish natives during the Eurozone crisis were surprisingly low compared to other Southern European countries, i.e. Portugal and Greece (Huart and Tchakpalla, 2019). It was rather the non-EU and intra-EU migrants who migrated from Spain during the economic shock towards the north. This can be explained by

two factors. Firstly, many migrants worked in the construction sector which suffered a large deterioration of positions during the economic shock (Fishman, 2012). Second, many of the Romanian migrants were employed on the construction sector and were among the most significant groups of migrants residing in Spain. When Spain restricted the mobility of Romanians in 2011, it gave them another incentive to leave Spain in addition to the increased unemployment rate. Acknowledging the extremely high youth unemployment in Spain during the crisis, the fact that outflows did not affect the national population to any greater extent is quite surprising. To accelerate the recovery from the economic shock, Spain introduced a labor market reform in 2012 promoting internal flexibility which included redistribution of working hours, changes to working conditions, and wage adjustments (International Labour Organization, 2015). This reform affected mostly the collective agreements but could still be seen as a starting point to a slow recovery which in Figure 4.3 is seen as a decrease of the peak of unemployment in 2013. Furthermore, from 2013 onwards (Figure 4.4), the increased inflows to Spain reflect the start of an economic recovery.

Spain and Germany serve as excellent examples of economies of the Eurozone that reacted in opposite ways to the crisis. The member states of the Eurozone which had not implemented any significant labor market reforms did so although this took place only after the national economy was severely hit. Along with the implementation of the labor market reforms in Spain in 2012, further training for the unemployed was offered to increase their capability of getting employed. However, there is not much research done on whether this particular function of the vast labor market reform was behind the slowly decreasing unemployment rate (International Labour Organization, 2015). The asymmetric nature of the crisis can be observed through the unemployment rates of Spain and Germany (Figure 4.3). The fact that it was the initial creditor countries' taxpayers that carried most of the burden of bailing out some of the peripheral member states of the Eurozone raised political tensions around the EU and rendered it quite weak (Kundera, 2013; Schwartz, 2014; Frieden and Walter, 2017).

According to Mundell (1961), in an OCA, residents of depressed regions can migrate to more prospering regions, which is how labor mobility in the EMU should work in theory. However, the Eurozone was quite far from being an OCA already before the

economic shock which eventually created more barriers for labor mobility. In the Spanish case, one reason for a low outflow of natives can be the high moving costs, which include existing mortgages and the significant lowering of housing prices as a reaction to the shock (Kahanec et al., 2016). Another ‘barrier’ which might have depressed the mobility of the Spanish native labor force during the economic shock is the *discouragement effect*. Casares and Vasquez (2018) define it as negative comovement between labor force and unemployment, i.e. the unemployed workers’ decrease in motivation and optimism to enter the labor force and consequently deciding to stay out of the labor force.

In general, as it was the taxpayers in northern member states of the Eurozone that had to carry most of the burden of the bailouts, the political environment in the E(M)U turned somewhat more Eurosceptic than it was before the Eurozone crisis took place (De Grauwe, 2013; Eichengreen et al., 2014; Schwartz, 2014). In Germany and three other relatively prosperous, important receiving countries i.e. the UK and Austria, the increasing mistrust towards the benefits of labor mobility increased during the Eurozone crisis (Krause et al., 2014). All of these countries were experiencing increasing inflows of intra-EU migrants and were concerned about welfare migration. The differences in business cycles of the north and the south of the Eurozone have thus created some political tensions around the EU.

4.1.3. Labor Mobility During the Recovery from the Eurozone Crisis

Acknowledging the asymmetric recovery from the Eurozone crisis, the wage differential-driven labor mobility was increasing. Likewise, Figure 4.4 shows the rapid growth of inflows to Germany since 2009. The European Commission (2020) states that the number of intra-EU inflows to Germany has been multiplied by three from 2009 to 2015 when mobility inflows reached their peak. For Spain, on the other hand, the growth of inflows did not commence until 2013. Nonetheless, the growth of the number of intra-EU migrants has started to increase progressively since. Figure 4.4 shows a drop in the German inflow rate after 2015. However, The European Commission (2020) states that in 2018, intra-EU inflows grew by five per cent in Germany although they still have not exceeded the inflows of 2016. Overall, the

graph shows a growing trust of the European labor force to the economies of the receiving countries which reflects an economic recovery.

The increased mobility to Spain reflects a lowered unemployment although it still is high in the country. As labor mobility in Europe is not at a level significant enough to show a remarkable macroeconomic impact as an economic stabilizer in the absence of a national monetary policy, the mobility rates show that also most of the 'peripheral' EU member states, including Spain, have almost recovered from the asymmetric economic shock. According to Huart and Tchakpalla (2019), labor force reacted to national differences in unemployment during the crisis period reflecting thus the large outflow of migrants in Spain. On the other hand, Figure 4.5 shows how the unemployment that has decreased by about 10 percentage points may be one of the reasons behind Spain now being the third most popular receiving country of intra EU-migrants. Yet, the decrease of Spain's unemployment rate shows signs of slowing down in 2019 even though it is quite high compared to many other countries of the Eurozone.

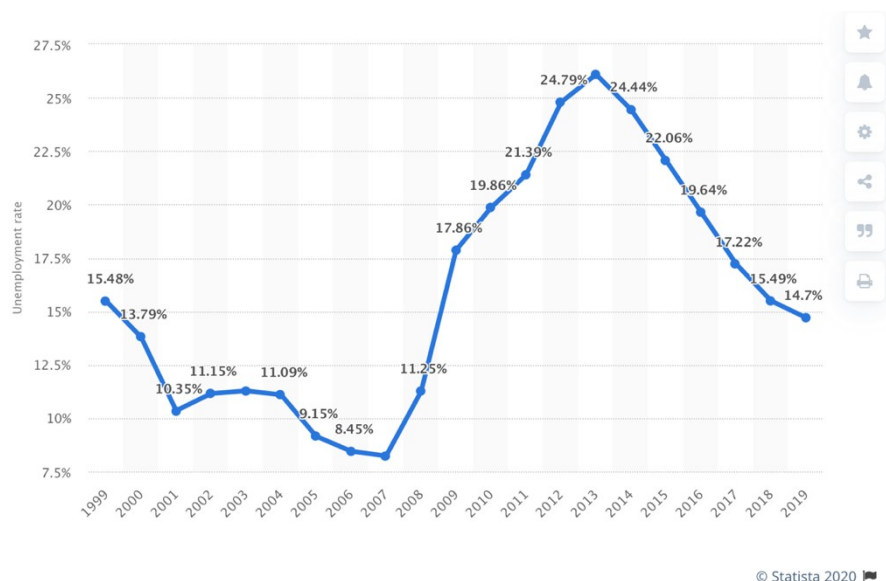


Figure 4.5 - Unemployment rate of Spain 1999-2019 (Pletcher, 2020)

Intra-EU labor mobility to Germany has slightly dropped since it reached its peak in 2015, yet it still remains the most popular receiving country of intra-EU migrants. Furthermore, as Figure 4.6. shows its unemployment rate is constantly decreasing which can be seen as a pull-factor to migrate to Germany. On the other hand, the number of return mobility has increased over the recent years, which the European

Commission (2020) points out by showing that on average, for every four people who leave a country, three return. This can be seen as a consequence of the economic recovery all around the EU despite the heterogeneity of the different national economies of the Eurozone. What made Germany such a popular destination country for EU-citizens is its high employment rate and a wage which is on average, higher than in other popular receiving countries. On the other hand, Elsner and Zimmermann (2016) have emphasized that intra-EU migrants often work in positions lower than which would correspond their professional skills. The down skilling of migrants is an EU wide phenomenon which can be observed in Spain as well (Rodríguez-Planas and Farré, 2016).

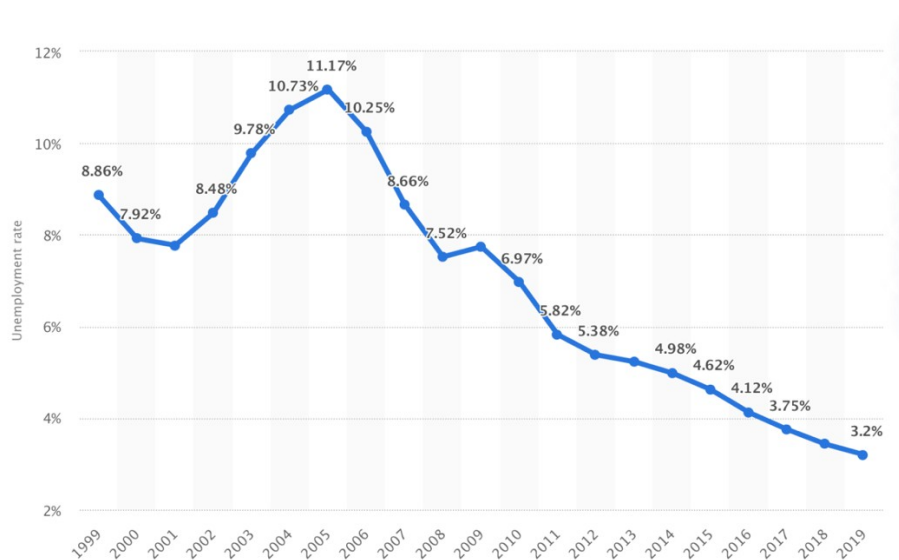


Figure 4.6. - Unemployment rate of Germany 1999-2019 (Pletcher, 2020)

The northern member states of the Eurozone experienced the recovery relatively rapidly after the initial shock of which Germany is a perfect example of. What distinguished especially Germany from the other member states of the Eurozone is the extent of labor market reforms implemented upon joining the monetary union in the 2000s. This is seen as one of the most important cornerstones behind Germany encountering the asymmetric economic shock without an increase in the rate of unemployment as can be seen in Figure 4.6. Spain, on the other hand, represents the other end of the spectrum. It is one of the PIIGS which, unsurprisingly, have recovered quite slowly from the Eurozone crisis compared to the more prosperous north. Many, especially southern Eurozone member states as Spain, implemented

labor market reforms only after the economic shock had deeply affected their economies triggering a large number of youth unemployment. This can still be considered an issue for the whole Eurozone. Throughout the EU, the economic crisis has conjured mistrust in the functioning and longevity of the EMU (Syed Zwick and Syed, 2017; Popescu and Alpopi, 2017; Berger et al., 2019).

In both countries of interest, labor mobility has been rather significant on the EU level, which yet has had a slight macroeconomic impact. However, in order to efficiently function as an economic stabilizer, the movement of labor ought to grow in dimension throughout the Eurozone. However, what the Eurozone crisis has shown both in Germany and in Spain is that the European labor force reacts to economic shocks and asymmetries by mobility, even though in Spain, the outflows influenced mostly the intra-EU migrants already residing in the area. This can partially be seen as a consequence of the restrictions Spain placed on the inflow of Romanians, yet, according to Rodriguez-Planas and Farré (2016) many of them have started since then to return to Spain.

4.2. Findings from Interviews

During the interviews with four EU experts representing three different member states, Finland, Germany, and France, they represented multiple different views on how the movement of labor in the EU should function. Interviewee #1, working as a Member of the European Parliament, presented the most determined ideas on the future of the EU. Interviewee #2 who works as a Senior Specialist on Employment Matters, gave a very realistic view on the current trends of labor mobility, and what may influence it in the future still showing similarities with the answers of Interviewee #1. More of an economic perspective was presented by Interviewee #3 working as an Economic Analyst. Lastly, the opinions of Interviewee #4, a Policy Analyst, were very realistic and compatible with what was found in the previous literature research.

All four interviewees brought up similar themes which are divided in three. First, the viewpoints of interviewees are represented on the benefits of an increased labor mobility. The first subsection thus assesses views on the ability of labor mobility to facilitate economic growth, reduce the unemployment effects around the Eurozone,

and the behavior of labor mobility during the Eurozone crisis. Second, the interviewees' answers on the different pull-factors of labor mobility are examined introducing themes such as agglomeration effects, barriers to labor mobility, and the wage gaps present in the Eurozone that incentivize mobility. Overall, the general risks and opportunities of labor mobility to the EMU are outlined. Lastly, the interviewees' viewpoints are presented on the stabilizing effects labor mobility offers to the economies of the EU by highlighting the benefits it may bring for the Eurozone in the future.

4.2.1. Benefits of an Increased Labor Mobility

All interviewees emphasized that skilled workers are needed all around the E(M)U and labor mobility does facilitate an easier way of matching skills to different positions. Their answers are quite concurrent with observations literature makes on the benefits of labor mobility (D'Amuri and Peri, 2014; Zaiceva, 2014; Dustmann and Preston, 2019). Interviewee #4 points out, that this is the case especially when observing the niche skillsets. Three out of the four interviewees point out the importance of simpler allocation of human capital. On the other hand, interviewee #2 states that in the future, extensive allocation of human capital may not be needed. "The future labour markets are most likely more flexible and global due to digitalisation." However, only one of the four interviewees mentioned digitalization as a factor enhancing the flexibility of labor markets. Although telecommunication might simplify the allocation of human capital in the future, also interviewee #2 agrees that the major benefits can be seen in easing the mismatch of skills in some areas. The reviewed literature (D'Amuri and Peri, 2014; Zaiceva, 2014; Dustmann and Preston, 2019), however, does not discuss the effect of digitalization, perhaps due to the fact that digitalization has become significantly more rapid during the past few years.

Reducing unemployment while also filling gaps in economies of some areas is another benefit mentioned by all interviewees. Interviewees #1 and #2 take a more proactive stance by stating that the EU should implement some process of harmonization of unemployment rights. This would hence eventually intensify the mobility of labor, as the incentive to move would increase. In addition, Interviewee #4 points out that labor mobility during the Eurozone crisis proved to have a positive

impact on the short-term stabilization of unemployment benefits. Frieden and Walter (2017) agree that many countries that implemented reforms addressing the high unemployment situation did see their economies benefitting in the short term. The movement of labor in the EU has indeed helped to control unemployment in some areas. Although interviewees acknowledge that the extent of labor mobility has been marginal, all of them recognize its impact in reducing unemployment.

It is widely agreed that labor mobility facilitates economic growth, both by literature and interviewees. An important question to pose when examining how much labor mobility affects economic growth is brought up by Interviewee #4. “- - who is leaving, is it those who would actually contribute quite significantly to economic growth and wage growth in the home country (highly skilled). Or whether it is let’s say just a more broadly said median worker who is moving abroad and therefore reduces the labor pull which puts pressure on the wages and therefore should be a factor price equality tendency.” Thus, the skillsets of the migrants should be observed to a further extent in order to define the precise growth labor mobility assures the Eurozone’s economy. This is an important notion as the European Commission (2020) states that in 2018, 23 per cent of intra-EU movers had low education, 40 per cent had medium, and 36 per cent had high. Other interviewees emphasized how labor mobility can manage the demand of labor in areas experiencing high economic growth. Interviewee #3 represents similar ideas pointing out to the theory of Optimum Currency Areas by discussing the possibility for increased competitiveness in sending countries as well “The level of labor supply will have an effect on wages and therefore prices and therefore competitiveness.” Interviewee #3 highlights furthermore that if flexible enough, labor mobility would provide a win-win situation for both the sending and receiving country, which is similar to the findings of Ritzen and Kahanec (2017). Furthermore, he sees that it may create a more multidirectional mobility for workers in the EU.

An interesting factor was brought up by Interviewee #4 who pointed out that even when thinking about the benefits of labor mobility, one needs to consider that all countries do not react similarly to an economic shock which was visible already during the Eurozone crisis. “One example here is Greece or the Baltic countries which actually had quite a high response in terms of mobility following the crisis

whereas Italy or Spain did not or rather there was a significant lag, and the composition of labor mobility was also small.” Literature has pointed this out to quite a significant extent utilizing examples of how differently the outflows reacted in countries that were the most severely affected by the crisis (Goshray et al., 2016; Frieden and Walter, 2017). When looking at how to handle labor mobility in the EU, literature underlines that there is no such thing as a one-size-fits-all policy which would function for all labor force in the EMU which is also described by Fishman (2012).

4.2.2. Future Pull-Factors and Barriers of Labor Mobility

Differentials in net-wages between the member states are significant pull-factors of labor mobility as all interviewees mention. The European Commission (2020) further highlights these wage gaps. For example, the average monthly salary of a professional working in Poland is 2158 euros compared to Germany where the average wage of professionals is 4547 euros. Unsurprisingly, Interviewee #3 mentions that unidirectional labor mobility, mainly from east to the west is caused mostly by the agglomeration effect which, in some cases, may be considered as a push factor. Three out of the four interviewees mention the agglomeration effects, especially in the areas where the EU utilizes its cohesion policy. Interviewee #1 mentions that these people gravitate towards better education and employment in general, although this might create brain or workforce drain in the most common sending countries of migrants. Hasselbalch (2019) takes an even stronger stance by stating that brain drain is a policy issue for the EU which should be paid more attention to, instead of labor mobility. Yet, all interviewees agree that although brain drain is an issue, the benefits of labor mobility outweigh the costs in the long run.

Unemployment is a push-factor mentioned by three interviewees. Thus, it is not surprising that labor force gravitates towards a more secure chance of employment. Yet, Interviewee #4 represents an opposite view by claiming that asymmetric shocks in unemployment do not work as a push or a pull-factor, and points to the low outflows of Spanish nationals in Spain during the Eurozone crisis. According to the literature reviewed however, what incentivizes the labor force to migrate is the opportunity for a better wage and the unemployment rate in the sending country

(Zaiceva, 2014; Kahanec et al., 2016; Huart and Tchakpalla, 2019). Still, one could say that for nationals of countries with already a very low unemployment rate, unemployment may not be considered either a push or a pull-effect. When assessing the low unemployment rate of a potential receiving country as a pull-factor, Interviewee #1 addresses the high numbers of unemployment of especially young people in the southern member states of the EU. The high unemployment in for example Greece, has indeed initiated large outflows of natives, which Interviewee #4 describes. It would be extremely important, according to Interviewee #1, that these large unemployment differentials should further be addressed at the EU level. The question on how that change is implemented is answered by her discussing mostly increasing integration, which has shown to be quite difficult in reality.

Important factors that may prevent the mobility of labor which two out of the four interviewees mention are the different cultures and languages in the EU. These are considered to be the barriers that are the hardest to address. Interviewee #3 states that there is almost no way to address the issue, but Interviewees #1 and #4 introduce ideas on how the language barriers could be lowered. Interviewee #1 represents a view on the harmonization of the education levels and as they are divergent across the EU. On the other hand, Interviewee #2 shows that the member states have extremely different views and are not willing to go for more harmonization despite extensive negotiations. Interviewee #4 mentions the Erasmus program as one of the important existing EU initiatives that, in addition to improving one's language skills, can increase their willingness to one day work abroad. They highlight the fact that the level of English skills of Europeans is constantly increasing, and this might later on be seen as something that may have an impact on lowering the language and cultural barriers.

Apart from highlighting cultural barriers, two interviewees mention the administrative barriers, the most important one being the recognition of professional qualifications in other member states. Interviewee #2 adds, that in addition to one's professional qualifications, the social benefits are extremely difficult to transport from one member state to another. Furthermore, Kahanec et al. (2016) state that language barriers automatically make it more difficult to transfer one's knowledge and qualifications. Thus, there are multiple cultural barriers affecting all the administrative ones.

Interviewee #1 has multiple ideas on further lowering barriers which include some extent of harmonizing the EU-wide policy on for example social security to increase labor mobility in the EU. Knowing that interviewee #1 works in a decision-making role, it is not surprising that the reforms she suggests are more ambitious than the other interviewees'. Nevertheless, these reforms would only be feasible if a solution to the negotiations among member states would be found. Interviewee #2 concludes in the following way: "Labour mobility is a highly political matter and will not be treated in the EU purely on the basis of economic theory even if it brings benefits to member states during economic shocks". Literature points out that after the Eurozone crisis, possible economic integration would promote labor mobility but instead, the process on deepening the integration has slowed down (Bertola, 2016; Syed Zwick and Syed, 2017). Hence, the barriers are expected, by the interviewees as well, to lower over time, although this can largely depend on the depth of integration.

4.2.3. Stabilizing Effects of Labor Mobility

The role of labor mobility as an economic stabilizer in case of an asymmetric shock was something that all interviewees agreed was very important. Two interviewees made interesting comparisons between the stabilizing effects of labor mobility in the EU and the United States (US). As is known, even though both offer their citizens the freedom of movement of labor, the EU has multiple barriers the US does not. "- - the rates (of labor mobility in the EU compared to the US) are much lower and there are several barriers, some that are quite deeply engrained and harder to address." As the extent of labor mobility in the US is much larger than in the EU, its position as an economic stabilizer is very clear. Even though interviewee #4 states that the EU's mobility flows are far behind the US, the recent Eurozone crisis did incentivize labor to move to a larger extent. Basso et al. (2019) agree, that the limited mobility of EU-citizens might well be caused due to the different barriers that do not exist in the US such as cultural barriers which can hardly be addressed.

While working as a stabilizer to a modest extent compared to the US, one of the interviewees pointed out that labor mobility has the capacity to absorb 25 per cent of an economic shock. The decision-makers of the EU tend to observe the same impact and are aiming to drive further integration to enforce stabilization of the economy.

Literature has suggested a similar effect as the interviewees, for example Arpaia et al. (2016) agree that labor mobility in the EU has the ability to absorb a quarter of the shock, and the extent to which the shock is absorbed through labor mobility increases over time. There are thus feasible solutions existing for the Eurozone to balance its economy in case of an asymmetric economic shock despite the lack of a harmonized fiscal policy. Interviewee #4 is the only one who does not mention the lack of further fiscal integration as a possible problem creating a barrier for labor mobility. It is true, that in theory, fiscal integration would be a feasible way to promote an even faster recovery from an economic shock which literature addresses as well. On the other hand, there exists a large divergence between the opinions of various member states which is one of the reasons why further fiscal integration has not taken place.

Labor mobility is quite marginal in the EU at the moment which all the interviewees and literature acknowledge to a significant extent, yet its abilities to function as a stabilizer should not be underestimated. One of the interviewees has multiple ideas on possible further integration and recognizes, that the extent of labor mobility is extremely likely to increase in the future, thus creating a stronger shock absorbing effect. Likewise, interviewee #3 addresses the OCA theory in a positive light, showing that the Eurozone has the ability to become an OCA if reforms are made. All the interviewees pointed out to the need of reforms to build a more integrated economy for the Eurozone. On the other hand, digitalization, as Interviewee #2 mentioned, might easily lower some of the barriers for labor mobility, and thus increase the stabilizing effect in the future even if the extent of integration would be slight.

The future of labor mobility as an absorber of economic shocks in the EU is discussed by all the interviewees. They all agree that European labor force is extremely likely to respond to asymmetric economic shocks to a more significant degree in the future. Interviewee #4 feels that thanks to the Erasmus program and the increasing language skills of young people, they might be more incentivized to move and work abroad. "They (young people) are already in the mindset of seeking opportunities abroad which of course makes it much more likely that they if there's an economic shock, that they actually do move to another member state." A question this interviewee poses is how labor mobility is affected by Brexit of 2020. The UK is

an extremely popular country of destination of Intra-EU migrants and the UK leaving the European Union is likely to result in an increased labor mobility. This might create an effect opposite to the agglomeration effect, which is return mobility, that benefits economies by increasing the amount of human capital in also the remote areas (Dustmann and Preston, 2019). One of the interviewees concludes the interview by stating that return mobility may create jobs in the home countries of migrants and thus, increase the demand of labor putting upward pressure on wages. Overall, the interviewees see the movement of labor in a very optimistic light in terms of its future capability as an absorber of asymmetric economic shocks.

5. DISCUSSION

As literature and recent events have shown, labor mobility in the EU is not working to its full extent and thus has brought only a marginal impact on the economy of the Eurozone as a stabilizer of asymmetric shocks. The purpose of this research was to find a feasible answer to why it has not been working to its full capacity while emphasizing the benefits it can bring to the Eurozone and the EU as a whole. Defining the barriers of ‘free’ movement of labor in the EU and highlighting what could be done to lower those were essential aims this of work. This section brings together the research made in this work and is structured as follows: first, the suggested and implemented EU-wide policies are discussed by highlighting the differentiating perspectives on the feasibility and effectiveness of these reforms. Then, the ‘win-win’ situation that labor mobility in the E(M)U can offer for the economies of both the sending and receiving countries is critically assessed. Lastly, the overall impact of labor mobility for the economies of the Eurozone is discussed through analysis of its future direction.

5.1. Suggested and Implemented Policy Reforms

Already through reviewing literature, it became clear that there exists no mutual understanding or agreement on how to promote the mobility of labor and increase integration in the Eurozone. The opinions on the reforms which should be implemented vary to a large extent depending on where the person that is being

interviewed is from, an effect which is observed by Krause et al. (2017) even among labor economists. In the qualitative interviews, the Finnish interviewee working in a decision-making role has quite ambitious ideas and suggests for example some extent of fiscal harmonization, which is rarely mentioned by EU experts coming from the more prosperous areas of the EU. Other three interviewees working in expert roles did not mention fiscal integration as something that would be feasible although they, to some extent, felt that it would be needed. However, the current Stability and Growth Pact of the EU is one of the only methods of controlling the fiscal policy of the member states, which was initially thought to be a sufficient measure to prepare the Eurozone for an asymmetric shock (Jones et al., 2016; Azcona, 2019). As the interviewees pointed out, although extensive negotiations have taken place, the member states have not been able to agree upon implementing any policy reforms. This is quite unsurprising knowing that the different member states of the Eurozone are extremely divergent when it comes to their economies and furthermore, fiscal policies. Furthermore, Berger et al. (2019) have found that low public debt and deficits do not make the Eurozone invulnerable. Labor mobility is thus largely thought to be a cornerstone of the EMU, as it is one of the most important measures of economic stabilization.

During the Eurozone crisis, many member states of the Eurozone decided to implement labor market reforms to reduce unemployment and help stabilize their economies. As seen through the comparison between Germany and Spain, one of the reasons for Germany's rapid recovery were the labor market reforms it implemented nationally after joining the monetary union in the early 2000s. One example of these are the Hartz-reforms, which have played a tremendous role in keeping the unemployment rate low in Germany throughout the crisis (Goshray et al, 2016; Syed Zwick and Syed, 2017). The reforms Spain implemented during the crisis did not have such a tremendous impact but initiated a slow recovery from the Eurozone crisis. Literature reviewed, case study, and the interviewees' answers are concurrent with the notion that significant heterogeneity exists among the Eurozone member states' economies. The current state of knowledge on the subject implies that reforms would be needed. The differentiating opinions of the different member states are on the way of increasing the economic convergence of the EMU. It is clear that sufficient labor mobility benefits national economies to a large extent, even

though one of the interviewees pointed out that it is still being discussed as more of a political than economic matter when making decisions. In addition to one of the interviewees, especially Fishman (2012) emphasizes that labor mobility in the EU cannot function by implementing a one-size-fits-all policy.

The divergences in unemployment rates around the EU were, and still are great. Examples discussed on how labor force in Spain and Germany reacted during the Eurozone crisis portrays two opposite cases. The interviews proved that in addition to the northern and southern member states of the Eurozone, the extent of labor mobility in the southern member states during the Eurozone crisis did not follow a similar pattern. The example of Greece and Spain was explained by an interviewee, pointing out that in Spain, the outflows of labor force during the crisis were mostly consisted of the intra-EU migrants, whereas the outflows of labor force from Greece consisted mostly of Greek natives. The interviewees consider the recognition of qualifications in different member states to be a significant barrier of labor mobility the EU should work upon. In addition to recognition of qualifications, the citizens of the EU might have problems with the 'transportation' of employment and social rights which literature takes into account as well. One of the interviewees highlighted the possibility of a similar 'EU-wide unemployment' insurance that has been suggested by Berger et al. (2019). Furthermore, in order to increase labor mobility's extent in the way that it would have a significant macroeconomic impact, a lot needs to be achieved. A significant lowering of the barriers and increasing the EMU's economic convergence are mentioned, by the interviewees, as objectives to reach in the future. However, achieving these objectives is much easier said than done.

Overall, labor mobility can be seen as one of the most important factors in increasing the economic well-being of the Eurozone. It is clear that the EU should take a stronger stance on supporting the people unemployed by encouraging them to move (Huart and Tchakpalla, 2019). Furthermore, as one of the interviewees concluded, there are going to be factors influencing lowering the barriers on labor mobility, for example digitalization and the improving language skills of persons. Even though the integration process has slowed down due to differentiating opinions of member states, as Dustmann and Preston (2019) state, a fiscal union may not be needed but a further state of integration should be achieved. Labor mobility is working as a tool

for internal devaluation in the lack of a national monetary policy but its extent is quite insignificant (Kahanec et al, 2016). Yet, the Eurozone crisis showed the EU, that labor force does react to an asymmetric economic shock by increasing the mobility of labor.

5.2. Gains of Labor Mobility for Sending and Receiving Countries

Literature widely agrees that migrants are the winners of labor mobility, and that labor mobility is something that benefits both the receiving and sending countries (Zaiceva, 2014; Basso et al., 2019; Dustmann and Preston, 2019). All interviewees agreed upon this fact, although one mentioned that brain drain might turn into a problem for some of the sending countries. Brain drain has indeed been ignored during the Eurozone crisis by the decision-makers who focused more on the economic recovery (Hasselbalch, 2019). However, even the interviewee who mentioned brain drain as a possible issue, declared that the benefits of labor mobility outweigh its costs. In addition, two interviewees mention that the extent of return mobility is increasing constantly due to the partial recovery from the economic shock. The European Commission (2020) found, that for example, on average, most of the intra-EU migrants in Germany reside there for less than ten years which could reflect a high rate of return mobility. Return mobility impacts the economy of the home country, as the acquired skills create jobs and thereby increase the demand for labor which should also put upward pressure on wages, as stated by one of the interviewees.

As labor mobility has been on an upward trend during the recent years, labor force around the Eurozone has proven to react to economic shocks. The reactions of labor force to asymmetries in the economy drives them towards better opportunities which may cause agglomeration effects. Literature that was examined does not mention the agglomeration effects to a large extent, although brain drain is, in some cases, impacted by the effect. Three out of the four interviewees mention agglomeration effects as possible drawbacks of labor mobility. On the other hand, Elsner (2013) proves out that a win-win situation is acquired for both the sending and receiving countries. He emphasizes that the unemployment rates have decreased in most of the member states of the EU that have joined after the three eastern enlargements,

and labor mobility has played a significant role in contributing it. Literature is quite concurrent with the answers given by the interviewees who all have expertise regarding EU-wide mobility. Although the interviewees mentioned some drawbacks of labor mobility, they pointed out that it does bring benefits to both the receiving and the sending countries which outweighs the costs. The benefits of labor mobility for the destination countries might be more evident as D'Amuri and Peri (2014) prove by showing that the doubling of the migrant population increases the specialization of natives by five per cent.

Very little fiscal harmonization exists in the Eurozone, and methods for stabilizing the effects of asymmetric shocks and the heterogeneity that are present in the area are only few. This is why labor mobility ought to play a more substantial role when thinking about the implementation of possible policy reforms. However, all the research made for this thesis has proven that considering the modest extent of labor mobility, it has shown to be effective in improving the economic situation of member states which can be seen in the case of Germany, which can, today, be considered as the 'heart of labor mobility' in the E(M)U (European Commission, 2020). However, as all member states of the EU cannot experience similar inflows of migrants as Germany, ways to make labor mobility more multi-directional needs to be discovered, as one of the interviewees working in an expert role mentioned. This would benefit all member states. According to Mundell (1961), unemployment could be avoided if the central bank would agree that the burden of adjusting to asymmetric economic shocks would largely fall on the surplus countries. This was seen throughout the Eurozone crisis, as burden of the asymmetric economic shock was mostly carried by the surplus countries raising political tensions that one of the interviewees mentioned. These tensions can be seen as something that prevent the further integration process.

All in all, the research conducted for this thesis shows that labor mobility indeed brings benefits to the sending and receiving countries. In the lack of a national monetary policy, labor mobility has shown to work, although to a slight extent, as means of internal devaluation. A fiscal integration proposed by many scholars, has been thought to be necessary, because the Single European Labor Market is not working to a sufficient extent (Jones et al., 2016; Krause et al., 2017; Berger et al.,

2019). The political tensions between some of the Eurozone's member states that have grown during the recent years have significantly slowed the integration process down regarding fiscal harmonization to promote a faster recovery from future asymmetric shocks. This research sees, that although labor mobility is focused on as more of a political than economic issue, it should be promoted since it is one of the only ways to stabilize the effects of asymmetric economic shocks, which the Eurozone has recently experienced. The current positive macroeconomic situation of the Eurozone can be seen through the increasing return mobility. And vice versa, an asymmetric shock does promote labor mobility to more prosperous regions, as shown during the Eurozone crisis, seeing the examples from the PIIGS.

5.3. Future Direction of Labor Mobility and EMU

In general, the research conducted in this thesis sees labor mobility as something that impacts the effectiveness of the EMU by functioning as a stabilizer of the Eurozone's economy by absorbing asymmetric economic shocks. The percentage of intra-EU movers out of the whole population of the EU is however rather small, 4,2 per cent, the number of movers being 17.6 million in 2018 (European Commission, 2020). The movement of labor has been on an upward trend recently which has increased the impact of it as an economic stabilizer. Yet, in order for the Eurozone to get closer to being an optimum currency area, the extent of labor mobility should be much greater. When conducting the interviews, it was clear that all the interviewees were somewhat concerned about how the Eurozone is able to handle another possible asymmetric economic shock if integration is not furthered. If economic integration is added, its endogenic consequences would include labor policy reforms (Bertola, 2016) which would promote the mobility of labor thus having a more significant macroeconomic impact on the Eurozone's economy.

Examining the recent Eurozone crisis, it is clear that the EMU was not prepared for it, possibly due to the decision-makers' reluctance to delegate authority and make reforms which Jones et al. (2016) describe very well by calling their action before and during the Eurozone crisis 'failing forward'. From the interviews, however, it became clear that perhaps the idea of failing forward might stem from the lack of effective furthering of the integration process due to the differentiating opinions of the member

states. The case of Germany and Spain showed how labor force in these two member states of the Eurozone reacted in somewhat opposite ways. The large outflows from Spain, during the Eurozone crisis, consisted mostly of intra-EU migrants and not natives even though the unemployment rate was extremely high, whereas Germany became the hotspot of labor mobility. Most likely, the Eurozone faces a similar situation in the near future, where the heterogeneity of the monetary union as a whole is close to tearing it down. This is why the decision-makers in the EU should start emphasizing the movement of labor to a more significant extent because labor mobility has the ability to absorb 25 per cent of an asymmetric economic shock in a year (European Commission, 2014; Arpaia et al., 2016; Krause et al, 2017).

Labor mobility should be considered an essential factor to the contribution to longevity of the EMU. As the interviewees mentioned, factors such as digitalization and the increasing level of language skills are aspects that play a significant role in the development of the movement of labor in the EU. The recent development shows that labor would be more mobile in case of an asymmetric shock, but on the other hand, the decision makers of the EU should not assume that labor mobility in all member states would react in the same way. It is clear that a one-size-fits-all policy does not function in the Eurozone, as differences even among the PIIGS' labor mobility were evident during the previous asymmetric economic shock. And as the Spanish case proved, it is important to remember that the asymmetries and underlying problems in national economies are often present before the shocks (Fishman, 2012), and economic shocks might reveal and worsen them by creating significant issues.

Thus, the question should not be whether the extent of labor mobility increases, rather if it is capable to increase to a volume significant enough. Many interviewees, and literature to some extent, compared the labor mobility in the EU and in the US. Even though the magnitude of labor mobility in the US is much greater than in the Eurozone, several more barriers to mobility exist in the EU. As found through the case study, interviews, and literature, labor mobility is handled as a political matter and furthermore, objections against it are much more often political than economic (Dustmann and Preston, 2019). Throughout the primary and secondary research

conducted for this thesis, it has become clear that the economic benefits of labor mobility outweigh its costs. Therefore, an increasing volume of labor mobility in the future would show a positive effect for the economy of the Eurozone, ensuring an efficient recovery from possible future asymmetric economic shocks. Even though no significant reforms would be made, Huart and Tchakpalla (2019) agree that the labor force all around the EU would react by labor mobility. The cases of Germany and Spain show, that a similar reaction of the movement of labor cannot be seen in all member states of the Eurozone due to the divergences in their national economies.

6.CONCLUSIONS

This research has focused mostly on the mobility of EU-citizens in the Eurozone, and its impacts on national economies of its member states. This section will highlight and summarize the main conclusions from conducting both primary and secondary research to answer the initial research questions. Second, the possibilities of intra-EU labor mobility are addressed in the context of International Business and last, suggestions for further research are presented.

6.1. Main Findings

Having shown the upward trend of labor mobility in the EU during the recent years, it can be safely stated that its increase does have a positive, although slight, impact on the Eurozone's longevity. Most importantly, labor mobility affects economies positively by stabilizing and absorbing asymmetric shocks. Although this research has shown its positive macroeconomic outcomes, labor mobility is often treated as more of a political than economic issue on the EU level. Member states have shown to be quite undecided when it comes to reforms or integration encouraging the movement of labor in the Eurozone which became clear through conducting both primary and secondary research for this thesis.

Multiple barriers for labor mobility in the Eurozone exist, but as research in this thesis has shown, these barriers are very likely to decrease in the future due to for example,

digitalization and improving language skills. Thus, European labor mobility is likely to continue increasing, and impact in addition to the EMU and national economies, the demographic situation caused by the aging of population. However, the extent of labor mobility is still modest, but its constant growth affects its ability to absorb shocks to a further extent in the future. Furthermore, labor mobility in the Eurozone does provide, in an economic sense, a win-win situation for both the sending and receiving countries.

Due to the asymmetry of the different economies of the Eurozone, the economic recovery from the Eurozone crisis has taken place at very different times around the different member states. This research focused on the cases of Spain and Germany by utilizing secondary data. This case study showed that differences between the central and southern member states of the Eurozone are vast when it comes to the ability to recover from an asymmetric economic shock. However, differences in labor mobility during the recovery from economic shocks differ in all member states and thus, the divergences between the Eurozone's member states cannot be divided solely between for example the north and the south that both literature and the conducted interviews showed. This thesis has presented, that the implementation of labor market and economic reforms before an economic shock has a significant impact on a faster recovery from an economic shock which the case of Germany shows. This is why all member states should consider emphasizing the implementation of reforms before their economies are deeply affected by an asymmetric shock.

6.2. Implications for International Business

Shown in this thesis, labor mobility is a prerequisite for the Eurozone's longevity. The supply of labor has a significant impact on the wages, price levels, and therefore, competitiveness. Thus, the growth of labor mobility in the Eurozone can be expected to increase its competitiveness in the global market as well. The freedom of labor mobility is an extremely important part of the European Union, and at the heart of the single market. By absorbing asymmetric shocks, and thus stabilizing the economy of the Eurozone, labor mobility contributes to the effective functioning of the European single market.

6.3. Suggestions for Further Research

Labor mobility in the Eurozone has not been substantially researched, and thus would require further, both qualitative and quantitative, research. There are still many aspects of labor mobility in the E(M)U to be researched. An interesting focus for future research could be the effect the Brexit of 2020 and referendum of 2016 have had on labor mobility in the UK. Furthermore, as the extent of return mobility has been increasing, an interesting area to research is its exact effect on the national economy of the home country of the migrant. Similar research to this thesis could be conducted with a larger sample size in order to determine the exact labor mobility in the different member states and the impact to the Eurozone's national economies. In the future, an interesting topic to research from the point of view of labor mobility is digitalization, especially the extent to which it can lower the barriers of moving.

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